

As stocks soared on the back of a strong US economy that led global growth, the Top 50 kept pace with its historical ROR rallying 13.2%. Emerging markets was the best-performing strategy over all four quarters, having delivered gains of nearly 19%. Two EM credit funds—Sandglass Capital and Enko Africa Debt—even outpaced the market. Credit and fixed-income, and hedged equity managers delivered the next best returns averaging gains of more than 14%, followed by multistrategy and macro funds that each gained on average 11.5%. **Fund data starts on page 7.**

by Eric Uhlfelder  
15 February 2025

# AS THE MARKET SOARED, THE TOP 50 SUSTAINED CONSISTENCY

The economy and market entered 2025 in a strong place. But lofty valuations, nagging inflation coupled with higher-for-longer interest rates, and growing confusion coming out of Washington are leading to greater hedging and a growing shift of assets overseas.

For two consecutive years stocks have more than doubled their historic annualized rate of return as well as those of the S&P 500 equally-weighted index. That means a handful of the largest equities are driving this outperformance and exposing the index to the upside and downside volatility of these uber stocks. Great returns? For sure. Diversity of returns? Not so much. That's kind of an important distinction. The only other time since 1960 that the market had consecutive years of 20+% returns was also driven by concentrated performance

which ended in the Tech Wreck. In contrast, Global Investment Report's Top 50 hedge funds—an equally-weighted model comprised of a myriad of distinct strategies—ended 2024 keeping pace with its short-, medium-, and long-term returns. These 50 hedge funds—identified in last year's annual report which ranked the highest 5-year trailing returns through 2023 of broad-strategy funds that met annual hurdle rates and managed at least \$300 million—were up an average of 13.1%.

That figure very closely tracked the group's three-year and five-year trailing returns (through 2023) of 12.3% and 13.7%, respectively. Since inception (with funds' average age of 15 years), the Top 50 returned 11.4%. Hedge funds should not replace market exposure. The S&P 500 is undeniably a remarkable source of performance. But the most consistent hedge funds can even out return streams for institutional and high-net worth investors. Identifying those kinds of funds has been the purpose of this annual report.

**Leading Strategies**  
Driving the Top 50's 2024 returns was credit's strong performance in developed and especially in emerging markets.  
**Emerging Markets**  
A half a dozen emerging market funds sustained their dominant performance over all other strategies in the Top 50 through 2024. They returned an average of 18.9%. Two credit funds led the way. Sandglass Capital (ranked No. 33) was by far the strongest performer across the entire Top 50 having returned nearly 40%. Enko Africa Debt (No. 18 and profiled

in the [2022 survey](#)) rallied 27.3%. Sandglass Capital PM Genna Lozovsky recently told Global Investment Report the key sources of returns: sovereign debt restructuring in Ukraine, Ghana, and Sri Lanka; strengthening fiscal improvement in Argentina, Ecuador, and Pakistan; and corporate restructuring in Brazilian infrastructure and transportation.

This was the fund's largest one-year gain—four-times greater than its average annual gains which dates back to 2013. The PM says the fund doesn't appear at risk of mean reversion for two reasons. One, it makes idiosyncratic investments that are independent of local market performance; and two, global growth prospects remain resilient despite the wars in Ukraine and Gaza.

Enko also enjoyed its best year ever in 2024. COO Craig Stanley explained it was due to the African debt cycle “being in a particularly attractive phase.”

He saw, “currency devaluations, tightening monetary policy, and elevated domestic interest rates creating conditions for local currency investments generating strong U.S. dollar returns.” This was part of the tail-end effects of the global rate tightening cycle that began in 2022 that stressed already distressed markets.

Enko generated a sizable portion of its profits in Nigeria, Kenya, and Egypt as hard currency and local currency bond yields peaked and prices stabilized due to structural changes that have been replenishing hard currency reserves.

Because Enko targets market inefficiencies in dynamic markets, Stanley continues to see compelling investments along with no shortage of risks. Two examples: Nigeria remains subject to the effects of weakening oil prices; and Egypt has suffered from the significant reduction in cargo traffic through the Suez Canal due to instability in the region.

Meanwhile, Kenya's policies and improving economic conditions have led to a replenishment of foreign reserves and a stable currency, with historically low inflation.

The fund's ability to manage risk and uncertainty has helped Enko avoid a down year since its launch a decade ago.

Two other EM Credit shops delivered solid returns. Waha Emerging Market Credit (No. 37) posted gains of 18.4% and 44th-ranked ProMeritum added 15.8%.

**Credit and Fixed Income**  
The second strongest performing strategy in the Top 50 involved credit and fixed income funds, which generated gains of 16.9%.

## TABLE OF CONTENTS

4Q 2024 Market & Performance Update	pp. i-vi
3Q 2024 Market & Performance Update	pp. vii-xiv
Mid-Year 2024 Market & Performance Update	pp. xv-xx
Strategy Performance	p. 4
<b>Top 50 Consistently Performing Funds</b>	pp. 7-16
Q&A: Eurasia Group's CEO Maziar Minovi Sees a Partitioned Ukraine, Trump Winning, and The Market Ignoring Risks	pp. 17-18
Ambassador Michael McFaul Identifies Links Between the Two Wars	pp. 21-22
Why Some Good Funds Didn't Make the List	p. 26
New Research Affirms Past Performance May Portend Future Returns	pp. 27-28
4 Fund Profiles	pp. 5, 20, 23 & 29

## CONSOLIDATED TOP 50 HEDGE FUND PERFORMANCE BY STRATEGY YTD THRU DEC 2024

No. of Funds	Strategy*	2024 Net Returns	5-Year Sharpe Ratio **
6	Emerging Markets	18.80	1.16
7	Credit and Fixed Income	16.88	1.00
2	Event Driven	13.50	0.70
10	Equity	12.21	1.29
10	Multistrategy	11.85	2.13
5	Macro	11.00	1.15
2	Municipal Credit	6.76	1.90
Top 50 Averages		13.12	1.43
BarclayHedge Index		9.71	0.53
S&P 500 Total Return		25.02	0.75

\* Eight other funds in the Top 50 involved different strategies  
\*\* 5-Year Sharpe Ratio is Thru 2023.  
Source: BarclayHedge and proprietary sources

**ABOUT THE 2025 ANNUAL SURVEY**  
Subscription will be required to access data and profiles. For an early-bird discount, please contact [eric@globalinvestmentreport.net](mailto:eric@globalinvestmentreport.net) before March 31.

## What the Shuttering of USAID Could Portend for African Debt Markets

**With the Trump Administration's initial budget initiatives taking out USAID, it's not hard to imagine US support for other intergovernmental finance organizations being reduced or eliminated. This could end up impacting African debt markets.**

Over half of USAID's 2023 \$40 billion budget was spent in Africa and the Middle East. Notwithstanding efficiency improvements that can be made to any large aid organization, its complete shutdown will materially affect local economies and markets. The agency works with local enterprises and many financial firms to promote business development and democratic reforms while combating food insecurity.

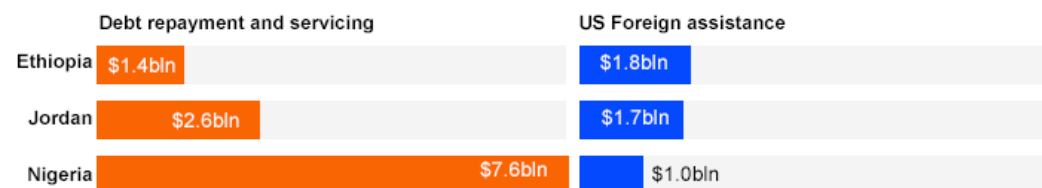
Without this single largest source of aid to the continent, many local experts on the ground say the effects of the continent's multiple wars will be compounded: draught mitigation and medical assistance will materially decline, famine will expand, mortality rates will climb which together will negatively impact the workforce and economic growth and fuel fur-

ther local and regional instability.

According to recent reporting by Reuters, loss of US support (most of which it says comes through USAID) will impact local finances and debt markets. Response from institutional investors is mixed about this risk. USAID was unavailable for comment.

In mid-February, JP Morgan wrote, "the prospect of the US withdrawing and potentially seeking to change the rules of engagement with Multilateral Development Banks, like the World Bank or regional development banks, has raised some concerns across development agencies, recipient countries, capital markets and other stakeholders. Moody's and Fitch have already signaled that US withdrawal from MDBs of which it is a member could trigger negative rating actions."

### US Foreign Assistance Supports The Finances of Vulnerable Countries



Note: 2023 figures  
A horizontal bar chart showing US foreign assistance



Source: World Bank International Debt Report, UNICEF, country data | A.F. Alias | February, 12, 2025

Of the seven funds in this category, the top-performing honors went by a wide margin to Mudrick Distressed (No. 34 and profiled in the [main 2024 survey](#)) which enjoyed one of the largest intra-year turnarounds. After being down by more than -8% at the end of March, the fund ended 2024 up 32%.

PM Jason Mudrick didn't credit macro events or the alignment of certain forces in the credit market, but cited a series of idiosyncratic trades that rallied around the same time. They revealed the breadth of his team's research and ability to discern opportunities, sometimes in obscure corners of the market.

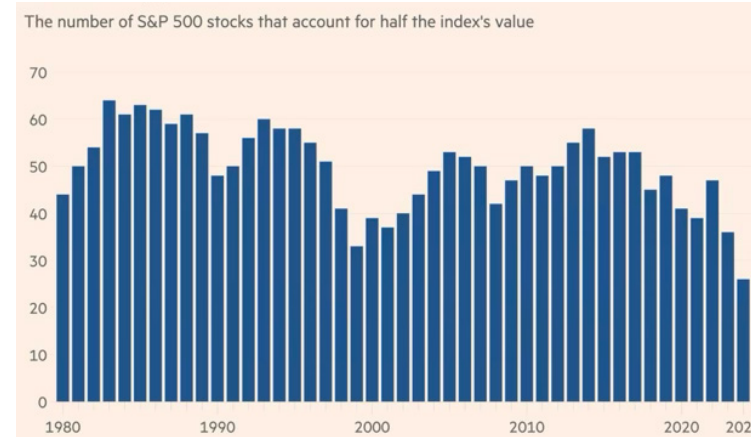
Fund returns were driven by a debt-for-equity conversion, FDA product approval, post-reorganization equity that got a boost from a perspective government contract, a senior secured convertible issue that benefitted from a favorable judicial approval and a subsequent buyout, and liability management for a large TV broadcast concern.

Does this suggest a front-loading of performance that could risk a down year to come?

It hasn't happened before.

The fund has seen several years of 20+% returns, each of which were then followed by more gains. Moreover, Mudrick is one of only a handful of funds that have made the Top 50 every year

### AN INVERTED PYRAMID



Source: Financial Times

since the current methodology was adopted in the 2019 edition for *The Wall Street Journal*.

According to the PM, a key reason why the fund avoids mean reversion of returns is due to various kinds of exposure, which the managers surmises will remain plentiful given the \$5.5 trillion in junk that still overhangs the distressed market and the likely continuation of higher-than-average interest rates.

CRC Bond Opportunity Trading (No. 42), which has made the survey over the past three years, assured its spot in the 2025 survey by rallying nearly 21%.

Palmer Square Opportunistic Credit (No. 35), which last year made its debut in the Top 50, will also qualify for this year's survey by delivering gains of 13.6% in 2024.

Despite shocks that hit debt and equity markets last year, both funds generated consistent sequential quarterly gains throughout the year.

### Macro, Equity, and Multi-strategy

Average returns of these three core strategies, which made up half the Top 50 funds, clustered around 11% and 12%. The group included the largest and most familiar industry names, many of which outpaced their historic annualized returns.

Fifteenth-ranked D.E. Shaw Oculus, the best-performing of the five macro funds (as well as across these three strategies), blew past its average returns having delivered 36.1%.

Citadel Tactical Trading (No. 7) outperformed the nine other hedged equity funds with returns of 22.3%.

Point 72, which made the cut for the first time in 2024 with a ranking of No. 25, was the top-performing of the ten multistrategy funds on the short list, with gains of 18.6%.

Peconic Grenadier grabbed the top spot in last year's survey with 5-year annualized returns of 27.6%. The fund was new to the survey

because its returns were only recently made available. Besides the surprise of finding this quietly performing hedged equity shop, it was also remarkable to learn its roots date back to 1986. It outperformed the average equity fund in 2024 by a substantial margin, gaining 16.6%.

### Underperformers

The biggest negative surprise was Waha MENA Equity.

Mohamed El Jamal's fund has made this survey every year, steadily ascending the ranks to No. 6 in last year's survey. Since its inception in 2014, it had delivered annual returns of 16.8% through 2023. But it struggled last year, managing a gain of just over 1%. (Note: it was the first-time that El Jamal's equity fund substantially underperformed his aforementioned 37th-ranked EM credit fund.)

Starboard Value (No. 12) was new to the 50 because its returns were also only recently made available to Global Investment Report. The well-known activist fund, which was launched all the way back in 2002 with

annualized returns of 13.5%, also struggled all year long, ending 2024 up 4.2%.

Some additional noteworthy underperformers included 39th-ranked European hedged equity manager Marshall Wace TOPS A USD—up just 4.04%. That was just about half of its 20-year annualized rate of return through 2023.

Aristeia, the 40th ranked multistrategy relative value credit shop, also lumbered through the year gaining just 4.4%. This was also roughly half its annualized returns since its inception in 1997.

### OUTLOOK

The US economy closed 2024 in good shape with stocks ending on a high note. No surprise that sentiment on Wall Street remains positive, especially with the prospects of reduced regulation and taxes.

Few are expecting the hypermarket rally to continue. But there are a number of trending negative factors.

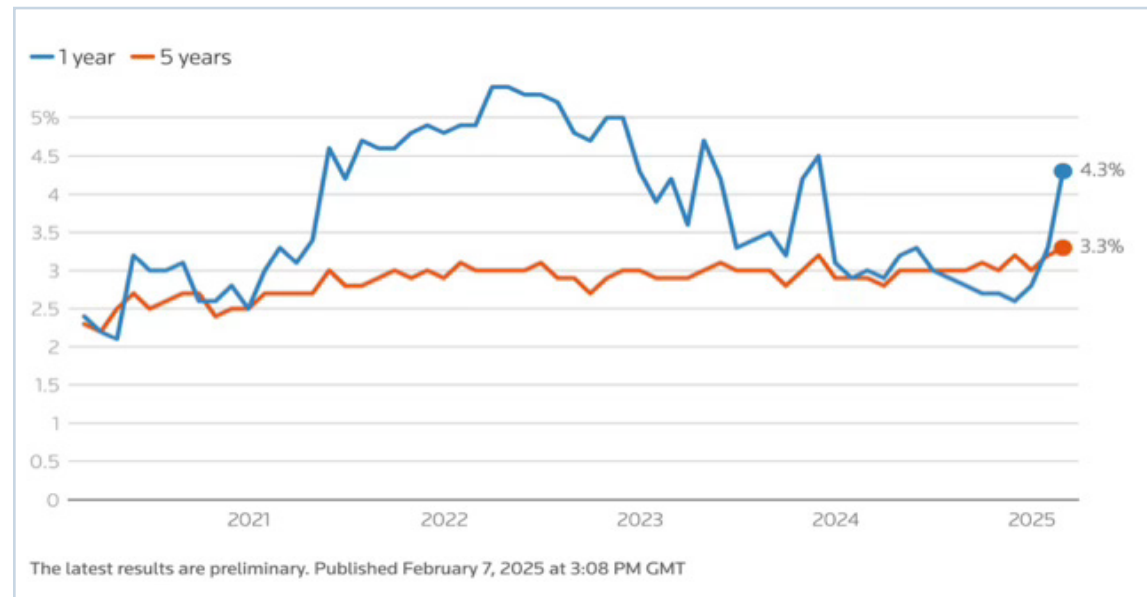
*The Financial Times* recently reported that the Trump trade, which had been driving stocks since the November election, is increasingly be-

**“The initial euphoria we saw in January over a pro-business president is giving way to consternation.”**

- Jeffrey Sonnenfeld,  
Yale School of Management



INFLATION EXPECTATIONS OF US CONSUMERS



By Reuters • Sources: University of Michigan Surveys of Consumers, LSEG

ing hedged.

On February 12th, the paper found, “Traders are piling into strategies that protect their share portfolios against volatility spikes, underscoring concerns over US President Donald Trump’s policies which is leaving investors on edge despite an upbeat start to the year for equities.”

A derivatives strategist at Nomura, Charlie McElligott, found retail demand for defensive S&P 500 contracts having been “tectonic” in recent weeks and “reminiscent of the frenzied activity of the Covid-era meme-stock craze.”

A leading Trump Wall Street ally, Citadel founder Ken Griffin (who has three funds in the Top 50), recently told investors that he sees current uncertainty and chaos as impediments to growth. And Jeffrey Sonnenfeld of the Yale School of Manage-

ment told the FT that, “The initial euphoria we saw in January over a pro-business president is giving way to consternation.”

Consumer sentiment is also turning south as inflation expectations are rising with rampant discussion of tariffs, higher prices, and the growing concern that additional interest rate cuts by the Fed may be less likely over the near term.

While interpreting insider trading trends is far from clear, Bloomberg reported this data point turning bearish. Toward the end of January, the buy-sell ratio tracked by Washington Service was at 0.22, and likely to be the lowest monthly ratio since 1988.

Value investor David Einhorn, PM of 10th ranked Greenlight Capital, gained just 7.2% last year because he was unnerved by current

valuations.

He recalled owning Apple when its revenue was growing at a 19% annualized clip and sporting a low PE ratio. Over the last several years, Einhorn saw multiple expansion from 22 to 37 driving Apple shares--not revenue growth. While he surmises further price appreciation is possible if there is no limit to how high multiples can go, he doesn’t see its investment appeal at this valuation.

More broadly, he thinks the market equity risk premium versus bonds is being priced at zero or less.

A key driver of disconnected valuations, reckons Einhorn, is the ongoing shift from active investing to market-based ETFs which he believes is worsening concentration problems in the market. He believes this could be contributing to significant mispricing—which

normally spells opportunity for active managers.

But investors don’t seem to be particularly concerned about any of this... yet.

Jason Mudrick believes new US presidential leadership may be beneficial for business. But he admits it’s too early to tell if growing policy confusion may eventually impact transparency, valuations and deal making. And he does see the potential contradiction between market sentiment that doesn’t anticipate recession and government policies that may fuel inflation.

But in his space of distressed debt, he remains bullish. That’s despite (or maybe because of) the huge amount of junk bonds that still overhangs the industry.

When I interviewed him last year for this survey, he correctly anticipated rates were not likely to materially fall. He said leveraged firms were able to buy more time by extending debt terms; not through refinancing. This suggests a risk of increasing bankruptcies and debt restructuring.

The head of the World Bank’s hedge fund exposure, Mohamed Farid, expects interest rates to be higher for longer and market volatility to pick up as the current US administration ratchets up uncertainty and potentially fuels inflation through new tariffs. But he surmises inflation and interest rates are likely to remain range bound,

fluctuating slightly in either direction.

Farid expects inflation to remain a global issue, especially if the world embarks in a tariff war.

To minimize volatility and downside risk, he avoids market exposure. Instead of employing strategies that target market beta (like many allocators who chase momentum), Farid focuses on liquid, market-neutral, idiosyncratic relative value investments to deliver consistent returns.

Moreover, he thinks the continuation of relatively higher interest rates will again drive equity dispersion that should again enable his managers to thrive.

Patrick Ghali of the consultancy Sussex Partners, also expects substantial volatility this year, including at times rapid reversals. “I think this will be conducive to active management,” he explains, “but the risk is that managers get whipsawed by these shifts in sentiments (e.g., the tariff announcements which then are delayed).”

He also expects to see pockets of opportunities like merger arb which could benefit from the new US administration’s policies.

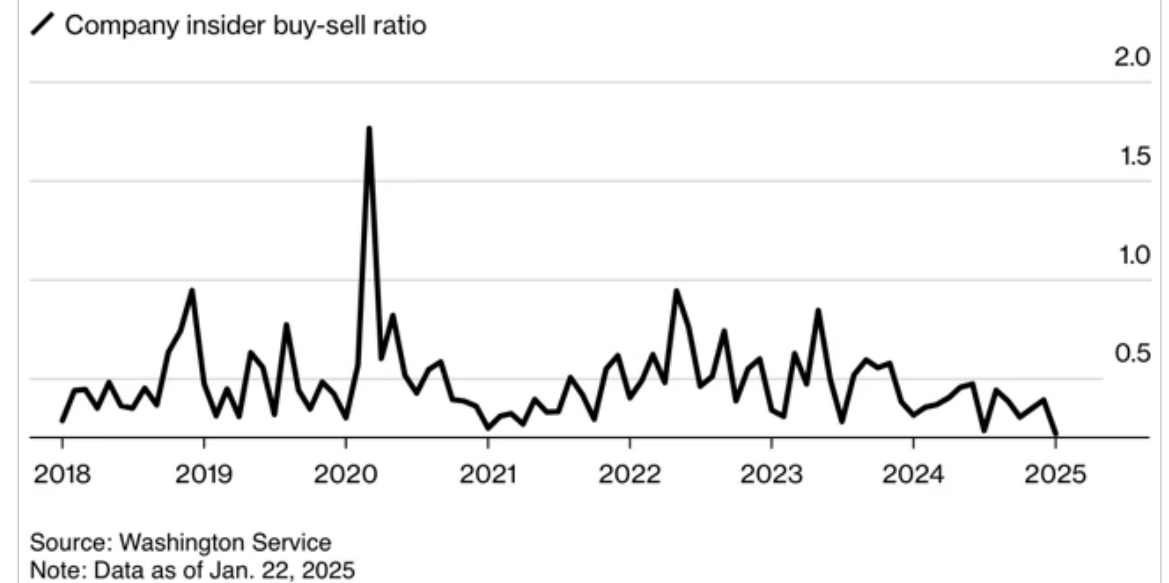
Ghali remains keen on Japanese hedge funds which he said had their best year since 2010.

David Kelly, chief global strategist at J.P. Morgan Asset Management, is also recommending investors

There’s a potential contradiction between market sentiment that doesn’t anticipate recession and government policies that may fuel inflation.

- Jason Mudrick

Corporate Insiders Dump Shares at Record Pace



Source: Bloomberg

consider overseas exposure. He thinks even partial implementation of Trump’s proposed policies, “would likely result in sharply rising government debt and the potential, in some areas, for building economic and market risks.”

Seeing this scenario along with the further rise in U.S. equity valuations after the election, Kelly thinks, “investors would be well advised to continue to rebalance portfolios both across asset classes and around the world.”

A recent Bank of America investor survey echoes this

sentiment. It found that fund managers are switching out of US stocks in favor of EU equities at the largest pace seen over the last 25 years. Lower valuations, a central bank that’s cutting rates (which may increase corporate profitability while reducing opportunity costs for local investors to shift from bonds to equity), along with relatively cheap currencies are making European shares more attractive.

Having less volatile leadership (at least at the European Union level) may also be seen as a plus.

So far in 2025 through

mid-February, the Euro STOXX 50 has gained more than 14% in dollar terms. That’s nearly 10 percentage points better than the Dow Jones Industrial Average.

But given the potential global reach of White House policies, few places may be spared from the likely growing chaos of contradictory actions and their consequences.

Betting against the US has rarely been profitable. But the way the federal government is now functioning and not functioning marks a paradigm shift worth noting. ■

**The Top 50** gained a solid 9.2% through the first three quarters of 2024, led by credit, fixed-income, and equity managers. These three strategies, which account for 17 funds, generated 10% gains. But emerging market funds continue to lead the pack, returning 13.3% in dollar terms. And one EM manager--Sandglass Capital--returned more than 24%--the only fund that outpaced the S&P 500.

by Eric Uhlfelder  
25 November 2024

# NOTHING BUT NET: MARKET ACCELERATES PAST HEDGE FUNDS

**The Republican election sweep should ensure the market rally continues through winter while generating a tail wind for hedge funds that are strongly correlated to the S&P 500.**

Two consecutive years of 20%+ returns.

Even for the market, that's rarified space. But that's what the S&P 500 is poised to deliver, supercharged by the Republicans' sweeping victory in the November elections.

Alternative funds are not going to come close to matching these gains. The Top 50's solid returns of 9.2% through September pale in comparison.

Nevertheless, many hedge fund allocators appeared satisfied with their consistent performance.

Cedric Dingens, head of global investment solutions who oversees alternatives at the \$12 billion Swiss-based NS Partners, says the firm's profitability across the first

three quarters of the year has been driven by hedged equity exposure, especially in the US.

"While rate cuts so far have not been as sharp as we expected due to sustained US economic strength," says Dingens, "we've also been profiting from the steepening yield curve."

Patrick Ghali, managing partner at the London-based investment advisory Sussex Partners, has seen his hedge fund exposure generate solid returns through the first three quarters of the year. In addition to benefitting from US-focused hedged equities, he's also seen decent returns from fixed-income relative value and regional stock market exposure. Sussex is increasingly constructive

about select discretionary US small- and mid-cap funds.

## Market and the Hedge Fund Performance

The Top 50 has seen its collective performance steadily increase over the first three quarters of the year returning 9.2%. It's on pace to match its trailing 3-year and 5-year trailing annualized returns through 2023 of 12.3% and 13.7%, respectively.

But the market's continued outperformance of the Top 50 has doubled from 6.4 percentage points as of March 31st to nearly 13 percentage points as of September 30th.

Even before the post-election bump, the market's returns of more than 22% through September are blowing past its trailing 3- and 5-year annualized

returns of 10% and 15.7%, respectively.

That's also the case for the average hedge fund that reported to BarclayHedge, which exceeded the Top 50 for 2024 through September, gaining 9.5%. Strategies that boosted returns were led by emerging markets, equity long-bias, and fixed-income arbitrage.

If the industry's gains continue through the rest of the year, the average hedge fund is on pace to also dwarf its 3- and 5-year annualized returns through 2023 of 3.4% and 6.3%, respectively.

This suggests the average manager's exposure is increasingly correlated to the market, which to some LPs may be fine while the bulls are running.

Even before this year, for the five years through 2023, the BH average fund correlation to the S&P 500 was already a very high 0.91. In sharp contrast, the average market correlation of the Top 50 was 0.31.

The average fund's high correlation to the market makes it hard to justify manager fees when turbulence again buffets stocks.

## Leading Strategy and Fund Performance

The Top 50's emerging market funds continued to outperform all other strategies year-to-date through September, delivering gains of 13.3%.

Genna Lozovsky's Sandglass Capital (ranked No. 33 in this year's survey) was a key driver of returns. The strategy was up a whopping 24.2% through September. The PM explained gains were supported by sovereign debt investments in Argentina, Sri Lanka and Ghana, and corporate credits in Brazil and Ukraine. Equity investments in markets including Argentina and Kazakhstan also contributed to returns, though there has been recent weakness in some of these positions.

After participating in our recent EM [webinar](#), the manager told [Bloomberg](#) that he believes there's more upside in investments in countries that continue to pursue struc-

tural reforms coupled with attractive economic growth supported by an improving global outlook.

Sandglass' returns are driven by idiosyncratic investments, which Lozovsky says is key in distinguishing opportunities across the distressed credit space where there has been a wide dispersion in performance.

Waha Emerging Markets Credit (No. 37) and Enko Africa Debt (No. 18) funds have also rallied more than 15% over the same period.

Waha PM Mohamed El Jamal has seen his fund partially rally from significant spread tightening due to the Fed's first oversized rate cut, which "precipitated strong demand for all assets, HY and IG, and especially front-dated bonds."

Returns were also boosted, says El Jamal, by "large inflows into EM bond funds for the first time since the start of 2023." Even though anticipated rate cuts through 2025 have been pared back from 10 to fewer than 6, which has dampened a bit of the euphoria, El Jamal views, "the backdrop as constructive for EM Credit."

(Waha's 6th-ranked MENA Equity fund is having an uncharacteristically off year. It's been flat through September while the BarclayHedge MENA Index has climbed by more than 14%.)

## TABLE OF CONTENTS

3Q 2024 Market & Performance Update	pp. vii-xiv
Mid-Year 2024 Market & Performance Update	pp. xv-xx
Strategy Performance	p. 4
<b>Top 50 Consistently Performing Funds</b>	pp. 7-16
Q&A: Eurasia Group's CEO Maziar Minovi Sees a Partitioned Ukraine, Trump Winning, and The Market Ignoring Risks	pp. 17-18
Ambassador Michael McFaul Identifies Links Between the Two Wars	pp. 21-22
Why Some Good Funds Didn't Make the List	p. 26
New Research Affirms Past Performance May Portend Future Returns	pp. 27-28
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## CONSOLIDATED TOP 50 HEDGE FUND PERFORMANCE BY STRATEGY YTD THRU 3Q24

No. of Funds	Strategy*	YtD Thru 3Q24	5-Year Sharpe Ratio **
6	Emerging Markets	13.27	1.16
7	Credit and Fixed Income	10.38	1.00
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5	Macro	7.95	1.15
10	Multistrategy	7.52	2.13
2	Event Driven	6.30	0.70
2	Municipal Credit	5.14	1.90
Top 50 Averages		9.20	1.43
BarclayHedge Index		9.48	0.53
S&P 500 Total Return		22.08	0.75

\* Eight other funds in the Top 50 involved different strategies  
\*\* 5-Year Sharpe Ratio is Thru 2023.  
Source: BarclayHedge and proprietary sources

## SPECIAL COMMENTARY ON THE ELECTION

**What the November results mean (and reject) and how these findings may affect the economy and markets.**

Please turn to pp. vii-viii.



“The market isn’t just making all-time highs; by many measures, it’s the most expensive stock market that we have seen since the founding of Greenlight (which dates back to 1996).”

- David Einhorn, Greenlight Capital

Craig Stanley, COO at Enko Africa, also found the Fed’s easing as “supportive of risky assets with both the hard currency and local currency indices posting strong returns in September.”

He explains that the increasingly benign EM credit environment has, “helped African high-yield outperform in the credit space, with Kenya and Egypt outperforming over the period after their previous relative underperformance.”

Stanley, however, does caution that, “the escalation of the conflict in the Middle East over the past few weeks has increased the risk to an otherwise supportive global outlook.”

Equity and credit/fixed income strategies each returned around 10%.

The high-yield credit shop Millstreet Capital (No. 17), which has qualified for this survey since the current parameters were adopted back in 2019, generated returns of

11.3% through September. It has continued its remarkable run of 18 straight months of positive returns, having added 3.4% in the third quarter.

Effective credit assessment and valuation along with the fund’s low average duration of 2.1 years and average maturity of 3.3 years has helped it sustain consistency.

But co-PM Craig Kelleher explains these kinds of tight credit parameters have largely prevented the fund from benefiting from the Fed’s aggressive rate cuts.

He says that move actually produced a “relative headwind since the portfolio has far less spread duration versus the overall market.”

In propelling equity markets to all-time highs, the manager has responded by adding marginally to long positions whose prospects appear to be improving as spread compression over the past quarter declined by 55 bps. But his team is also, “increasing our short exposure as the

strong rally in the market created more opportunities with many over-levered credits now trading at or above par.”

The most caution was expressed by Greenlight Capital’s David Einhorn. His 10th-ranked hedged equity fund gained a respectable 9% through September. While the manager sheepishly acknowledged significantly trailing the market, he explains that “the market isn’t just making all-time highs; it is, by many measures, the most expensive stock market that we have seen since the founding of Greenlight,” which dates back to 1996.

In his third-quarter investor letter, he was reticent to call, “this market a bubble, and simply observed that the dividend yield is low and the P/E ratio is elevated despite corporate earnings being cyclically high, if not top-of-cycle.”

Einhorn nods to Warren Buffett’s decision to aggressively sell out of a substan-

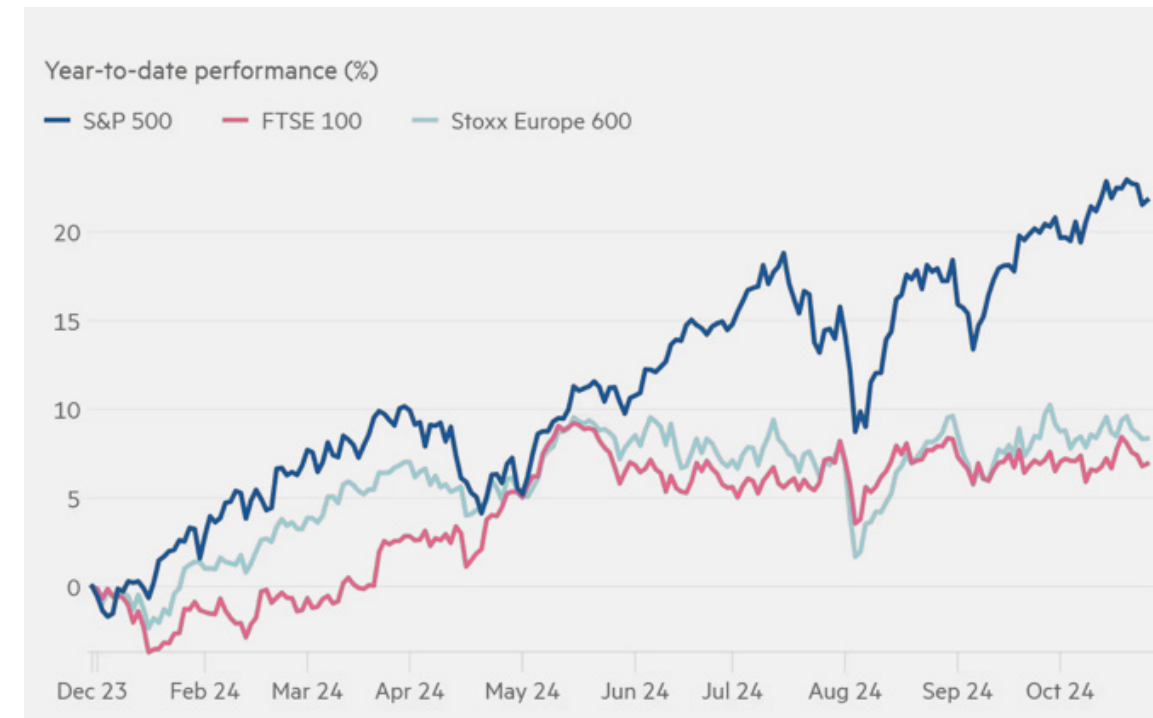
tial number of profitable long-standing positions. The PM doesn’t believe this means a bear market is approaching any time soon. But he does read Berkshire’s move as expressing, “a long-term view that right now is not a great time to have a lot of equity exposure, and that the opportunity set is expected to be better at some point in the not-so-distant future.”

Five macro, ten multistrategy, and two event driven funds comprised the bulk of the Top 50 strategies, respectively returning 8%, 7.5%, and 6.3%.

With global macro funds being up by more than 8.5% through September according to BarclayHedge, the strategy is on pace to have its best year since 2020. This indicates the average macro fund has done even better than those that made the Top 50.

The performance of the average multistrategy fund

ECONOMIC DATA FUELS ‘AMERICAN EXCEPTIONALISM’ IN STOCKS



Source: LSEG

is underperforming its Top 50 counterpart. The database reports average gains of 5.8%, which is nearly two percentage points behind the returns of multistrategy funds in the Top 50. (Note: a number of the largest funds in the survey that continue to thrive do not report to BarclayHedge.)

Despite the strategy’s consistent profitability, Sussex Partners’ Patrick Ghali fears possible contagion across mega multistrat funds when a negative event hits. He believes their sheer size forces many into the same large markets and consequently often into the same trades. “Even if there’s only temporary dislocation in these markets,” says Ghali, “that could quickly cascade triggering serious consequences.”

That growing concern may in fact be a key reason behind reduced risk taking and diminishing returns in many of these mega funds.

The average event driven fund generated comparable returns to multistrategy, rising about 5.4% across the first nine months of the year. That’s about one percentage point behind the two event funds that made the survey. This indicates that equity performance is largely being triggered by fundamentals, outlook and momentum rather than by a spate of special corporate actions.

Looking Ahead

How long will investors propel the current rally? Lots of folks are in the bull camp. Lead amongst them is economist Ed Yardeni, who

has tossed aside his usual balance and has gone all in. He predicts the S&P 500 will end this year at 6,100, rally to 7,000 in 2025, and then add another 1,000 points in 2026. He sees corrections happening along the way, but nothing that will likely derail this train.

More caution is expressed by David Kelly, chief global strategist at J.P. Morgan Asset Management, who thinks even partial implementation of Trump’s proposed policies, “would likely result in sharply-rising government debt and the potential, in some areas, for building economic and market risks.”

Combining this scenario along with the further rise in U.S. equity valuations after the election, Kelly thinks, “investors would be well

advised to continue to rebalance portfolios both across asset classes and around the world.”

Proposed policies that seek to spike an already robust economy and market could lead to overheating, fears PIMCO’s chief investment officer Dan Ivascyn. He notes the sell off that’s already occurring in Treasuries as risk assets have soared on the back of likely hefty tax cuts and universal import tariffs.

While Anthony Novara, partner and research director at the \$310 billion Chicago-based Fiducient Advisors, isn’t surprised by the post-election rally, he already saw US equities as richly valued and presently doesn’t see a great deal of compelling opportunities.

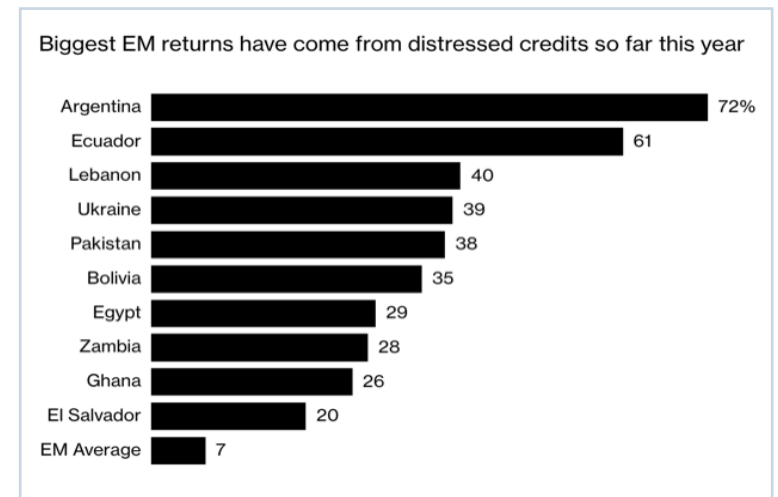
He’s not certain of the net benefits of levying broad import tariffs. But Novara remains cautiously optimistic about the current investment environment.

Even before the elections, NS Partners’ Cedric Dingsens accurately surmised that the Republican victory would drive further market bullishness from which he says the firm is positioned to benefit.

He notes that with new Republican leadership comes greater inflationary concerns along with the resurgence of US instability under a Trump presidency, which he surmises will not be contained within America’s shores.

Though NS Partners is not particularly keen on core

DISTRESSED SOVEREIGN DEBT RETURNS



Source: Bloomberg

# When a Remarkably Consistent Fund Fails

## DYNAMIC ALPHA SHUTS DOWN

It was hard to see this coming. But not impossible.

This volatility trader, which was launched in May 2016, had been realizing consistent gains of 16% annually for more than 8 years. And it was doing so more impressively than most of its larger competitors by focusing exclusively on the S&P 500.

After it racked up five years of performance to qualify for this survey, the fund earned the 21st spot in 2022 along with a profile.

From reading of its documents and discussions with management, the argument for trading only a single asset—as opposed to a basket of indices—was convincing. The manager believed it would have far greater sensitivity to the pulse and risks of this familiar asset, especially when compared to less frequently traded indices.

The fund's strategy: to capture market inefficiencies in the highly liquid S&P 500 Index options market. It arbitrated the spread that inherently exists between implied volatility (prices investors are willing to pay to hedge future volatility) and realized volatility (the value of the actual variances over the same period).

Until this summer, the fund's only serious misstep had occurred at the start of the pandemic when it didn't have sufficient custody backup. Dynamic Alpha's custody provider backed away from its traditional role which quickly undermined the fund's trading options and ability to manage risk just at the time markets started to tank. The fund proceeded to lose more than 20% in February. But after it secured new custody support, Dynamic Alpha made up all it had lost and then some in March.

Dynamic Alpha proceeded to inch up in each subsequent annual survey to 15th in 2023 and then 14th in this year's report.

The fund was always clear, however, about its Achilles Heel: Soaring short-term market volatility without a major market selloff. This didn't seem a likely scenario. But markets can deviate from the logical.

That's exactly what happened in early August. Problems started after the Japanese Central Bank decided to counter rising inflation and nudge up interest rates by a mere 15 bps, pushing overnight rates to just 25bps.

This triggered extensive unwinding of Yen carry trades, which had extended well into US equities. Stocks started selling off. Then a misread of a single monthly unemployment rate cast doubt about US corporate strength and the country's solid macroeconomics.

A panic ensued and intraday S&P volatility spiked above 65,

and over several days the S&P lost 6%.

All this came to a head for management when it saw option chain pricing of the S&P 500 break down. The normal bid-ask spread of around \$1 soared to an inexplicable \$180 in pre-market trading on Monday August 5th. A contributing factor, according to a source familiar with options trading, was major market makers significantly pulled back, effectively reducing liquidity, hampering pricing and exaggerating the chaos.

The fund suddenly found itself down by more than 20%. Management believed it was looking down a barrel of a gun.

It's unclear whether the team had gamed out various scenarios to deal with this worst-case risk.

It seems management, like many fearful investors at the time, was laser-focused on what it was seeing on its screens and didn't believe the market would promptly refocus on strong prevailing macro conditions to avert more catastrophic losses. Accordingly, the team decided it could no longer sustain trading without taking on greater risk than it was willing to face.

No doubt the immediate situation looked extremely grave. Management had its own material exposure to the fund. But if it had decided to ride out this very rough patch, according to sources familiar with the fund's trading, Dynamic Alpha might have recovered (as it had in early 2020) and turned a profit in August, adding to its gains through July of 7-plus percent.

Instead, management decided to shut down the fund.

In doing so, it compounded existing losses, failing to benefit from the recovery that started just a few days later. By the time the fund had fully liquidated its positions, August losses cascaded to 40%. Dynamic Alpha did not gate nor suspend the fund and offered complete redemption.

It then launched a new, less levered version of the fund with lower targeted returns. A large majority of investors stayed on. The previous high watermark was maintained, which enables them to avoid paying performance fees for a while.

There are basic parallels between LTCM and Dynamic Alpha: strategies were sound, but during an extreme condition, execution was flawed.

Extreme decoupling of the VIX and the market was a very low probability tail risk. But it was always there. So the key takeaway: if there is a weakness in any strategy, despite the remoteness of it happening, push managers to see if they have studied such scenarios and have conceived a variety of potential responses—short of shutting down.

European investments, especially in Germany and France, Dingens does see Spain, Portugal, Greece, and Ireland regaining their attractiveness.

Sussex Partners' Patrick Ghali anticipates several layers of response to a Republican victory. The initial product will likely be less regulation combined with more tax cuts which will likely further boost markets and merger activities.

The second response will be the likelihood of trade wars resulting from the broad imposition of import tariffs which will further increase volatility.

While Sussex intends to keep significant levels of unencumbered cash, it still is overweight US, with half its exposure in America. Between one-quarter to one-third of the firm's exposure remains focused in Asia, with a bias towards under-researched and more thinly traded Japanese stocks.

Sussex is not bullish about Europe or emerging markets. It prefers Asian exposure for macro and market neutral, as well as CTAs which focus on niche markets and that trade shorter time frames with little over-night risk.

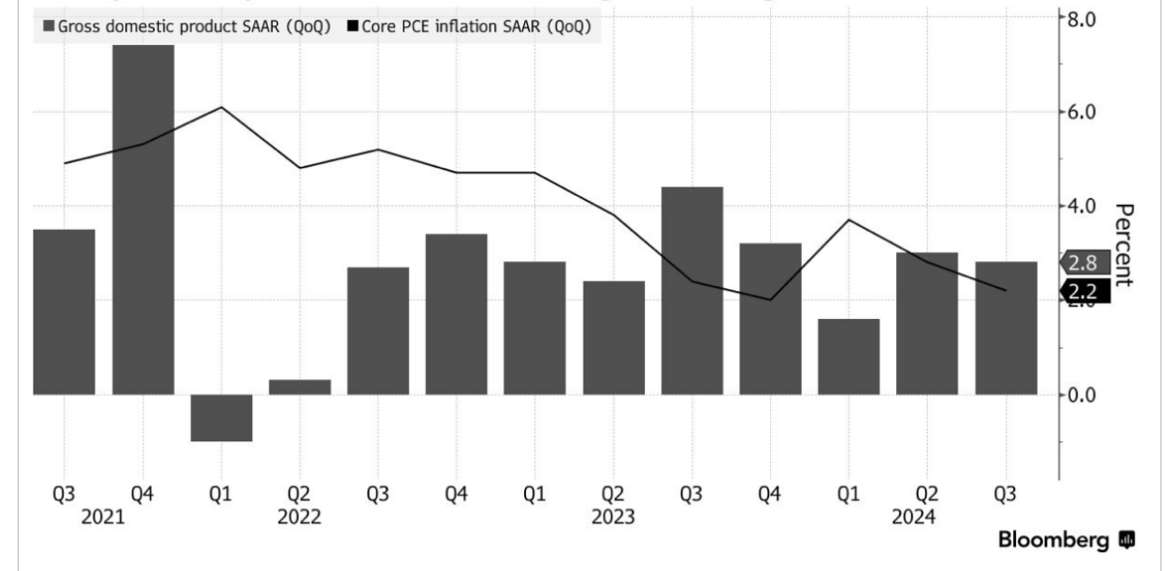
The firm sees equity market neutral as less attractive compared to variable, low-net managers, especially those focused on specific sectors or niches where a clear edge is discernible versus broader exposure.

“Latest data confirms our thesis that the US is in the midst of the Roaring 2020s, propelled by technology-driven productivity growth.”

- Ed Yardeni, Economist

### US Economy Keeps Expanding as Inflation Eases

#### Fed's preferred price measure was near target in third quarter



Source: Bureau of Economic Analysis

Even with the likely sharp change in US economic policies and related market implications, Anthony Novara doesn't see Fidcuient materially repositioning its current exposure.

The asset manager intends to sustain half its hedge fund exposure in credit and fixed income strategies, one third in equity market neutral and low-net strategies, and around 10 percent in uncorrelated strategies. These include discretionary macro and volatility traders.

Though Warren Buffett and Berkshire Hathaway haven't chimed in about the post-election results and rally, it just may be that the firm was anticipating a sweeping Republican victory.

I have no clue if that factored into the firm's decision to stockpile record cash of \$325 billion. In doing so, the firm has clearly reduced its market exposure.

As David Einhorn recently told investors, Buffett has an uncanny ability to do what

even he says can't be done--time the market.

Einhorn recalls Buffett having closed his fund by the end of the 1960s, sidestepping the ensuing lost decade. He again sold "nearly everything" before the 1987 crash. And he was well positioned to exploit opportunities after the 2008 financial crisis.

For hedge fund managers and investors who can't resist the current narrative, it may be worth noting what's going on in Omaha. ■



## COMMENTARY: THE ELECTION, ECONOMY, AND MARKETS

This quarterly and annual report on hedge funds focuses on significant macro forces that affect economies, markets, and performance.

Such events have included the pandemic, war, global supply chains, inflation, and interest rates.

The reelection of Donald Trump is an event of equal magnitude because of his stated goals.

This coda will briefly address what the election results affirm and what they deny in assessing what they may mean for economies and markets.

**The sweeping Republican victory was a reversal of voting trends** that started in 2018 and continued through 2022 when a Red Wave failed to materialize.

In having given control of congress and the presidency to one party, the vote was a partial indictment of Democratic leadership. It ended divided government for at least the next two years, and is a call for different action..

This includes changes at the border and to end uncontrolled migrant flows into the country.

The election says that prices are too high, and in certain localities questions how well local governments are enforcing law and keeping order.

The results may also be a call for less regulations and a diminished role of government.

But if that's so, voters have apparently discounted the value of significant long-term infrastructure, chips, and environmental programs that were signed into law by the current Democratic administration, which made it the most productive legislatively since the Johnson Administration.

The election results ignored the global

underlying forces that have pushed prices higher everywhere. Incumbents from around the Western world lost power for that reason. But misunderstanding inflation may lead to its return. More about this below.

Voters ignored warnings issued by leading officials from President Trump's first term about his fitness to hold office again.

They also question the need to confront belligerent foreign advisories that have fractured the Western order established after World War II—an existential piece of history that more than half the electorate know little about along with the importance of NATO.

Taxpayers across the West have a right to feel an inadequate return on their investment against Moscow's aggression. But failure of Ukraine to have effectively pushed back the Russians was directly due to the constraints placed on Kyiv by the US and NATO, which ensured no more than a stalemate and now maybe not even that.

**The election dismissed the import of January 6th and the need to find accountability for one of the most shocking events in recent American history.** Accordingly, there will never be a formal legal rendering about that day.

This matches the lack of accountability from which many Wall Street executives escaped for the toxic brew of securitizations and malfeasance that led to the most serious global economic crisis since the Great Depression.

In financial parlance, Wall Street calls this lack of accountability Moral Hazard. Now we have the same phenomenon in our politics.

In search for solutions, the election results question the extremely complicated

nature of our most significant problems, and sow doubt about the value of robust debate, institutional rules, and the need to compromise in finding responsible solutions

\*

*The Wall Street Journal* recently wrote that the economy (re inflation) was voters' top concern.

Future policy that seeks to restrain inflation must understand what causes it. **Many blame Biden's American Rescue Plan for a sky-rocketing CPI. But that doesn't square with the simultaneous rise in prices globally.**

Despite what any politician claims, little can be done to bring down prices short of triggering deflation, which is not on anyone's agenda.

While it may provide an edge for domestic-made products, imposition of broad import tariffs in 2025 does risk inviting US businesses to again raise prices and trigger a new bout of inflation along with a trade war.

If this occurs, the Fed will be challenged to sustain further rate cuts and may possibly push rates higher. Pressure from the incoming administration may again challenge such a turn, as President Trump did during his first term.

Easing financial regulations that will likely stimulate mergers is argued to be good for efficiency and stock prices. But unchecked deal-making and the increasing concentrated ownership of goods and services usually comes with enhanced pricing power which can be inflationary.

Environment and climate risks are a reality across the country and globe and various businesses are reacting to them, from the explosion of alternative energy firms to property insurers.

Chronic large storms are draining FEMA resources and those of other disaster relief agencies. But if these risks are not recognized by leadership, then they will be left to intensify and cause environmental, economic and inflationary problems.

**Bottom line: The anticipated Republican agenda may prime Wall Street for near-term gains.** But spiking an already healthy economy could lead to bubbles, excesses, and unintended but predictable consequences.

\*

Early in Donald Trump's first term, his lead counselor Kellyanne Conway tried to explain one of her boss' dubious claims by expressing belief in there being more than one reality, that there are indeed Alternative Facts.

I always figured as a seasoned communicator, Conway simply gaffed, probably meaning to say Alternative Perspectives. That would've made more sense even if her argument didn't.

But the more I've thought about this, I think she said what she meant. And now that the Republican party is faithfully behind the president elect, failure to recognize and respond to reality is playing a dangerous game.

Investors require transparency and clarity to assess conditions on which to base decisions. And they need government to take the same critical approach to governing. But the next administration by its own admission is likely to be lacking in broad and challenging discourse.

I'll leave the last word on what that might mean to the *Financial Times*, whose recent editorial addressed President Trump's first set of actions after winning back the White House.

Financial Times Editorial

16 Nov 2024

## Donald Trump's alarming picks for government

*The president-elect has put unwavering fealty above competence or suitability*

As Donald Trump's choices for his top team have been revealed this week, it has been hard to know which is the most dumbfounding. Is it the Fox News presenter Pete Hegseth as head of the world's most powerful defence department? Is it Matt Gaetz, who has said the FBI and justice department must be brought "to heel" or abolished, as chief law enforcement officer? Or is it the vaccine sceptic Robert F Kennedy Jr to lead the \$1.7tn health budget?

What is clear is that many of Trump's choices are about as bad as could have been expected. The "adults in the room" who provided some checks in his first term will be replaced this time by appointees chosen entirely for loyalty and subservience, not experience or suitability. This may yet be a moment of over-reach. Senate Republicans, some as aghast as anyone at Trump's picks, might side with Democrats to block one or two. Some appointees may cause chaos — though Trump thrives on chaos. At worst, however, his choices may represent the lurch towards authoritarianism that his opponents and many US allies have feared.

His picks are not universally disastrous. Marco Rubio as secretary of state and Mike Waltz as national security adviser are traditional foreign policy figures who believe in a strong America and spending on its armed forces.

Charging two entrepreneurs, Elon Musk and Vivek Ramaswamy, with pruning government red tape and spending is not, in principle, a nonsensical idea. But Musk's hard-charging approach risks destabilising US governance, and the world's richest man has a chance to bend regulators to his will, apparently unconstrained by huge conflicts of interest. At the Department of Health and Human Services, meanwhile, the appointment of Kennedy, whose maverick

views put him at odds with the very agencies he would supervise, could do real damage.

It is in the security, defence and law enforcement fields, however, that Trump's choices sound the loudest alarms. Step one in the strongman leader's playbook is to ensure control over the spies, generals and prosecutors. As director of national intelligence, former Democrat Tulsi Gabbard combines all the zeal of a Trump convert with unsettling apparent sympathies for Russia's Vladimir Putin. Hegseth, the Pentagon pick, shares Trump's obsession with ending "woke shit" such as diversity, equity and inclusion programmes that they claim have weakened the military. But alongside reports of a potential executive order to create a review board to remove generals "unfit" for leadership, his appointment raises concerns that the president-elect aims to purge any who might reject orders they see as unconstitutional.

Trump's nomination for attorney-general, Gaetz, has faced a justice department investigation into alleged sex trafficking, and a House probe into alleged ethics breaches including sexual misconduct, drug use and the acceptance of gifts — all of which he has denied. But his obeisance to Trump seems without limit. His confirmation would clear the way for Trump to use all the might of US law enforcement to exact vengeance on those — in politics, the media and the justice system itself — he believes have wronged him.

Two sources of hope remain. One is that the powerful defence, justice and health bureaucracies can stand up for the rule of law and for public accountability, including upholding scientific standards. The second is that the few Senate Republicans who have not entirely thrown in their lot with Trump are prepared to put country ahead of party and reject the most egregious nominations — Gaetz above all — and resist the president-elect's push to make recess appointments that would circumvent the Senate approval process. This ability to act as a check on the presidency is among the most vital powers of the upper chamber. The reality, however, is that since 2016, Trump has remade the Republican party in his own image. Now he is poised to do the same with the US government itself.

**The Top 50 gained 6.3% during the first half of 2024, led by credit and fixed income, equity and macro, well behind the market’s remarkable start. Ten funds delivered double-digit returns. But the strategy that continued to surprise was emerging markets with six EM funds having outpaced all other strategies. And one EM credit fund outperformed the market during the first six months of the year.**

**by Eric Uhlfelder  
21 August 2024**

# PLUS ÇA CHANGE, PLUS C'EST LA MÊME CHOSE<sup>1</sup>

**Several key themes that emerged from 2024 global hedge fund survey remain front and center.**

Tech shares continued to drive the market, helping it to outpace hedge funds. S&P 500 gained 15.3% through June. BarclayHedge Index was up 5.4% while the Top 50 rose 6.3%.

Emerging market funds continued to thrive. It was the best performing strategy within the Top 50, having gained 9.5% on the back of strong credit returns. (See sidebar on p. iii to see how various strategies have done so far.)

Geopolitical risks not only have remained significant but have risen, with Ukraine having invaded Russia and Israel having assassinated a Hamas leader in Iran, not to mention the outcome of the US presidential election now

a horse race, whose implications will be discussed later in this update.

And market sentiment continued to be driven by the prospect of rate cuts. Because it is, rather than what the broader outlook portends, market sentiment continues to spin on a dime. As we saw in May and again in August, small provocations can create lots of noise, keeping investors and analysts wondering what’s ahead. And this uncertainty will continue to feed market volatility.

In early August, *The Economist* put it well:

“How quickly the mood turns. Barely a fortnight ago stock markets were on a seemingly

unstoppable bull run, after months of hitting (consecutive) new all-time highs. Now they are in free fall . . . panic is sweeping through markets. Wall Street’s “fear gauge”, the VIX index, which measures expected volatility through the prices traders pay to protect themselves from it, has rocketed to its highest since America’s regional-banking crisis last year.”

Listening to some analysts and pundits about the recent brief sell-off reminds me of Claude Rains in Casablanca, who was shocked when he learned gambling was going on in Rick’s Café as he accepted his winnings.

Rising rates are supposed to slow the economy to help

ratchet back inflation. Perhaps it surprised some folks that the economy didn’t miss much of a beat for more than a year after the Fed boosted rates.

It certainly felt the US was continuing its exceptionalism, thriving when all other major economies were trying to avoid contraction.

But it takes time for rates to filter through a \$27 trillion economy. GDP growth is slowing, unemployment is inching up, and consumer price inflation just broke below 3%.

Not bad for a bunch of central bankers who many had thought couldn’t shoot straight.

Still, investors were clamoring about how the Fed, in holding back rate cuts, continues to be behind the curve and will be forced to play catch up, again.

Well, maybe not.

*The Financial Times* saw the recent market whipsaw as, “saying more about the

psychology and structure of modern markets than they do about any fundamental shift in the economic or financial outlook.”

Unwinding of a good chunk of the Yen carry trade, which was adding fuel to US tech shares, shouldn’t have surprised given how weak the Japanese currency had become and how it would induce much needed inflation.

The real surprise was how a mere 15 basis point rate rise, which pushed the overnight rate to just 25 bps, strengthened the Yen by 5%.

Justin Young, director of investments at MEMCO, a pool of university endowments, said the Japanese central bank had signaled it will combat nascent inflation with rate hikes.

“The sharp moves that followed,” explains Young, “were more about crowded short yen positioning, extremely cheap valuation, and the narrowing of expected future real interest rates between the BOJ and the Fed.”

As US growth softens with falling rates and Japan nudging rates incrementally higher, Young expects the Yen will continue to rally.

### Words Matter

Popular diction also hasn’t helped investors navigate the turbulence.

Despite claims of the US being in a high-interest

rate environment, we’re at a historically average level. We’ve just been conditioned to expect money to be free, which probably isn’t a good thing for all sorts of reasons.

The second misconception involves the continued discussion of soft or hard landings.

Seems that we’ve passed that glide slope related to Covid, inflation, and rate hikes where there has been no landing at all and that investors should be thinking instead of the next phase of the economic cycle that we’ve entered.

Even if the market sold off by another 10 percent, that wouldn’t necessarily be a bad thing considering how highly priced the market has become, especially with the steady decline in the risk-free rate potentially fueling equities.

A sell-off by itself wouldn’t portend growing systemic risks including recession. Slowing earnings growth, however, might.

But economist Ed Yardeni just reported that, “Q2 S&P 500 operating earnings per share rose 10.9% year over year during the quarter to a record high.” And he found the consensus earnings estimate for next year is up 15% from the 2024 estimate.

Still the recent bout of volatility has revived recession fears.

## TABLE OF CONTENTS

Mid-Year 2024 Market & Performance Update pp. xv-xx

Strategy Performance p. 4

**Top 50 Consistently Performing Funds** pp. 7-16

Q&A: Eurasia Group's CEO Maziar Minovi Sees a Partitioned Ukraine, Trump Winning, and The Market Ignoring Risks pp. 17-18

Ambassador Michael McFaul Identifies Links Between the Two Wars pp. 21-22

Why Some Good Funds Didn't Make the List p. 26

New Research Affirms Past Performance May Portend Future Returns pp. 27-28

4 Fund Profiles pp. 5, 20, 23 & 29

## CONSOLIDATED TOP 50 HEDGE FUND PERFORMANCE BY STRATEGY

No. of Funds	Strategy*	1H24 Net Returns	5-Year Annualized Returns thru 2023
11	Equity	6.96	18.63
5	Macro	6.08	15.90
10	Multistrategy	5.24	12.69
2	Event Driven	2.67	12.58
6	Emerging Markets	9.51	12.49
2	Volatility Arbitrage	4.84	12.33
7	Credit and Fixed Income	7.15	10.26
2	Municipal Credit	3.81	9.28
<b>Top 50 Averages</b>		<b>6.32</b>	<b>13.66</b>
<b>BarclayHedge Index</b>		<b>5.42</b>	<b>6.30</b>
<b>S&amp;P 500 Total Return</b>		<b>15.29</b>	<b>15.69</b>

\* Five other funds in the Top 50 involved different strategies  
Source: BarclayHedge and proprietary sources

JP Morgan said that despite solid gains in the service sector, sustained profit margins, and limited credit stress, the prospects of a

US recession in 2024 have increased from 25% to 35%. “Important elements of our growth forecast are being challenged,” says Bruce Kas-

<sup>1</sup>This somewhat familiar expression felt appropriate: “The more things change, the more they stay the same.”



## Top-Performing First-Half Strategies

**Six emerging market funds** in the Top 50, including four EM credit focused funds, generated average gains of more than 9.5% during the first half of the year. That was 3.5 percentage points higher than the BarclayHedge Emerging Market Index returns.

Key drivers of returns included sovereign debt restructuring, resurgence of local currency bonds, and declining Euro and US interest rates.

This group was led by London-based Sandglass, which delivered the best first-half returns in the survey, even topping the market. According to BarclayHedge, the fund soared 18.4%. A significant contributor to the 33rd-ranked fund's gains was exposure to distressed sovereign credit positions in Argentina, Ukraine, Egypt, and select African nations, along with corporate exposure mostly in Latin America.

London-based Enko African Debt fund (18th) delivered the second-best performance, climbing 15.4% as local currencies and related debt rallied with rising oil prices along with debt restructuring.

Singapore-based FengHe equity fund (31st) rose 11.3%. PM Matt Hu explains his "diversified returns were generated across almost all core markets both on the long and short sides." Shorting has been improved with stricter focus on timing and execution, including the use of tighter stop-losses. And limiting gross exposure to around 100% has improved control of downside volatility.

**Seven credit and fixed-income funds** were the second-best performing strategy, gaining more than 7%, which was 5 percentage points higher than the BarclayHedge Credit and Fixed Income Indices.

Magnetar Constellation (45th), based in Evanston, Illinois, led the group, having soared more than 11% followed by New York-based CRC Bond Trading (42nd), which returned 9.5%. Kansas-based Palmer Square Opportunistic Credit (35th) delivered gains of 7.9%.

**Hedged equity was the third-best** performing strategy, rising nearly 7%. That was only marginally better than the BH Equity Long-Short Index which was up 6.4%. BH Equity Long Bias climbed 9.4%

Leading the group was Miami-based quant fund Citadel Tactical, the 7th-ranked fund, which gained 13.7%. It was followed by the survey's top-ranked fund, Peconic Grenadier, which rallied 11.8%. Fourth-ranked Cooper Creek Partners, based in New York, added more than 11%.

man, the bank's chief global economist, "with sharper-than-expected weakening in labor demand and early signs of labor shedding. The latest business surveys also suggest a loss of momentum in global manufacturing." This is especially true in the Euro area where economic sluggishness continues.

He adds that easing labor market conditions suggests the Fed's current policy stance is restrictive.

Accordingly, Kassman thinks the Fed should jettison its penchant for gradual moves and cut at least 100 basis points by year's end.

David Kelly, the firm's chief global strategist, agrees arguing the Fed should initially cut rates by 50 basis points in September to message, "the economy is fine, inflation is under control, and we need to get back to more normal rates."

He feels the Fed's belated response to inflation was overdone, with inflation having peaked in June 2022 when rates were still under 2%. Kelly thinks overnight rates should be brought down to 3.5% to 4% as soon as possible.

"If the Fed makes a bold move in September," cautions Kelly, "it must not be perceived as panicking. That will scare people and delay investment decisions by those who may decide to wait until rates drop even further before acting."

On the other side, Brian

Moynihan of Bank of America sees no recession in 2024, believing the Fed will continue to tap down on inflation while keeping the economy afloat.

"We see two rate cuts this year and four next year," says Moynihan, "with rates normalizing between 3% to 3.5%."

He worries if the Fed doesn't, "start bringing down rates soon, you could dispirit the American consumer. And once the consumer starts turning very negative, then it's hard to get them back."

But that trend hasn't shown up yet. The Census Bureau reported a 1 percent increase in US July retail sales, well beyond economists' forecasts of 0.3% and the largest increase over the past 18 months.

So what does all this mean to hedge fund allocators?

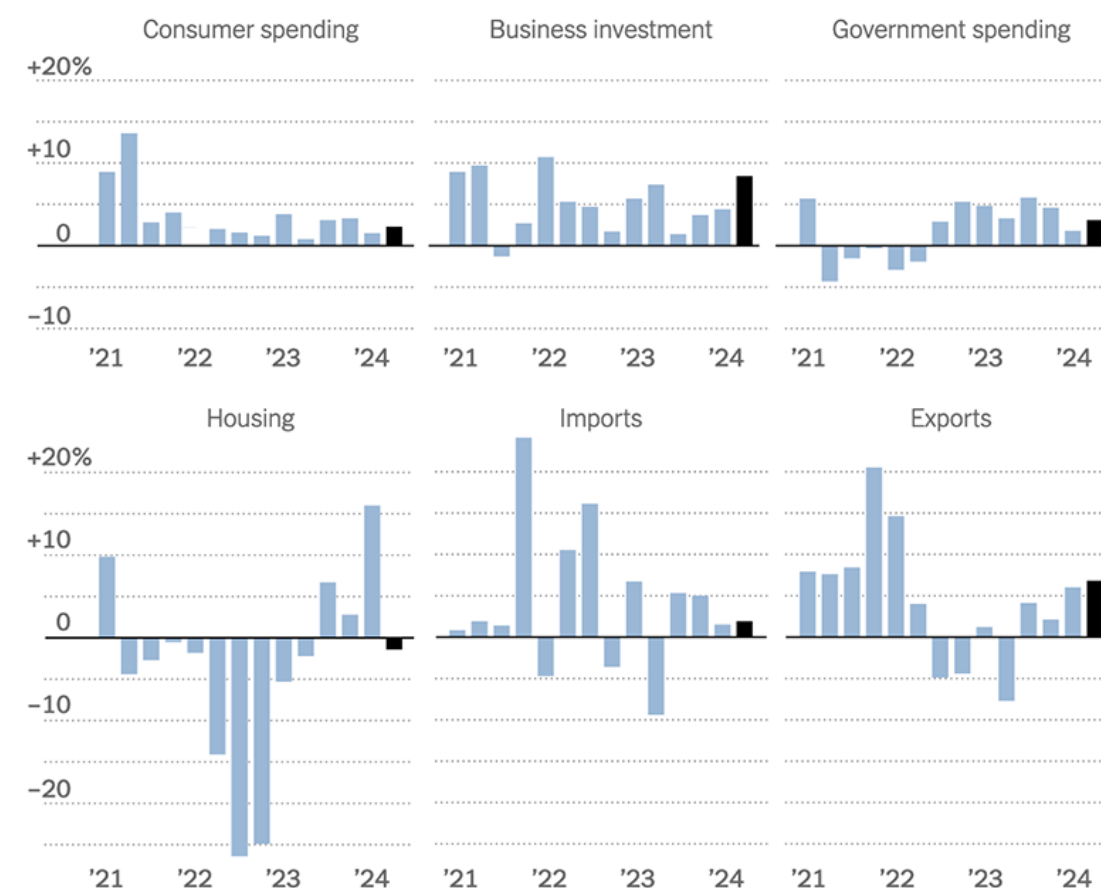
Not much, despite the switch in focus from inflation to growth concerns, the slow rise in Japanese rates, and the resurgence of the democratic party that may augur well for Vice President Harris this fall.

### November and Beyond

The presidential race has tightened. But many still believe it's Trump's to lose.

Eurasia Group's CEO Maziar Minovi believes that while President Biden's departure from the race has stabilized Democratic prospects down ballot, he still gives Trump the edge.

Quarterly change in real gross domestic product, by category



Note: Data is the seasonally adjusted annual rate, adjusted for inflation. Source: Bureau of Economic Analysis • By Andrew Park, NY Times

He explains, "what happens at the top of the ticket will have significant repercussions for investors." In a recent Q&A, which appeared in the annual survey in June, Minovi argued the most under-appreciated geopolitical risk is a second Trump presidency. (See full interview on pp. 17-18.)

At the same time, he thinks, "divided government would provide the most stable outlook for investors as compromise will be needed

to pass legislation, especially on fiscal matters."

Anthony Novara, partner and research director at the \$309 billion Fiducient Advisors, sees inflation likely remaining a sticky problem regardless of who occupies the White House. He believes discretionary government spending is unlikely to be slowed significantly by either party.

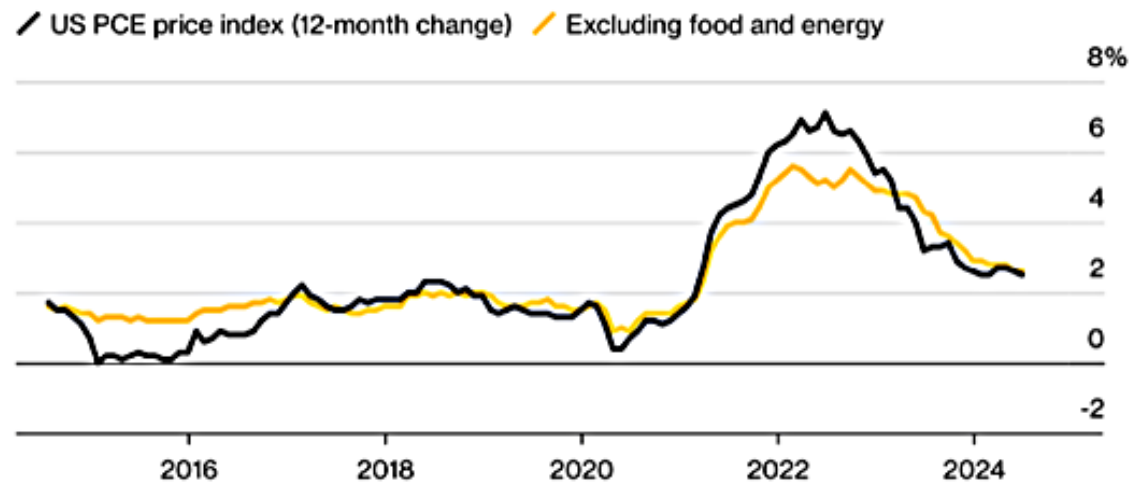
(Note: Many believe US inflation surged due to Biden's large spending programs.

But that doesn't square with inflation having been a global phenomenon and that US CPI has dropped sharply nearing the Fed's target rate even as the administration's big-ticket CHIPS, infrastructure and clean energy programs are just ramping up.) Either way, Novara believes this will limit interest rate cuts, likely leaving overnight rates between 3% to 4%.

This may boost the prospect of distressed managers, thinks Novara, as

**Inflation Is Moving Toward the Fed's 2% Target**

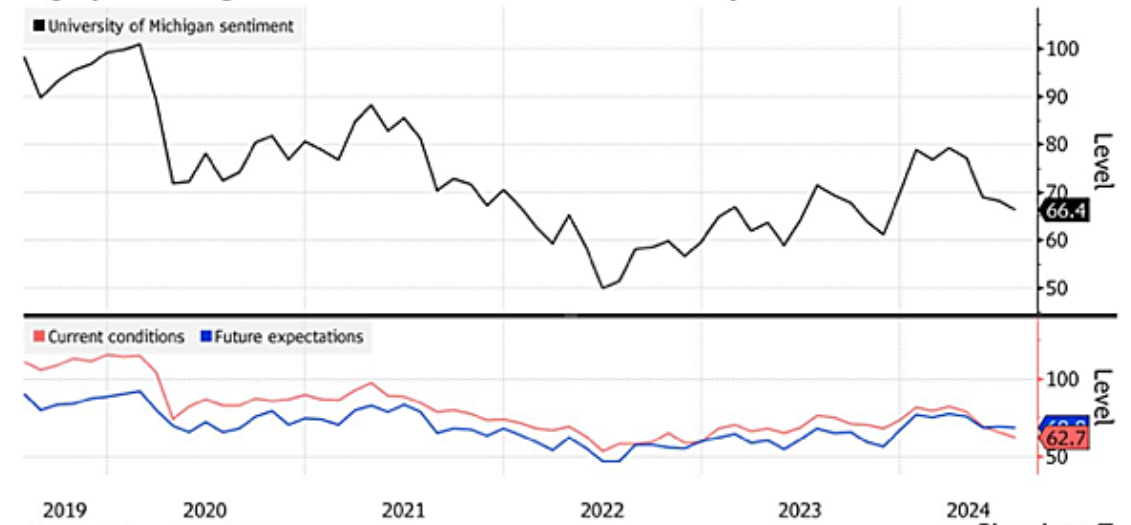
Powell will probably stress progress made without declaring victory



Source: US Bureau of Economic Analysis

**US Consumer Sentiment Falls to Eight-Month Low**

High prices weighed on current and future views in July



Source: University of Michigan

made any significant investment changes in the light of recent volatility.

“We leaned into reinsurance last year and are making sure all of our strategies have a clear passthrough of cash rates (less true for things like distressed debt),” noted Young. “Outside of Japan, the valuation moves in our book have been modest and haven’t been large enough to cause us to shift our portfolio.”

CIO of London-based Sussex Partners, Jim Neumann, sees the return of volatility as a good thing, reflecting a return to normalcy. This can fuel helpful corrections and create opportunities. “Since Covid struck and government fiscal spigots were turned on full to quell uncertainty,” explains Neumann, “there hasn’t been any sustained volatility.”

Accordingly, Neumann thinks this shift will hit low volatility and high leverage strategies, including relative value and some multistrategy trades, which he recommends avoiding.

In this environment, he sees “several emerging sources of alpha, including economies with diverging post-pandemic stimuli, central banks on the move (and making mistakes), liquidity challenges in even the most liquid markets (US Treasuries), and asset price inflation.”

Accordingly, Sussex Partners continues to favor strategies that have been

historically uncorrelated during periods of dislocation, including geographically and stylistically diverse global macro and fixed income involving relative value and directional trades.

In spite of recent volatility that shocked the Yen and Japanese equities, he says his firm remains very pro-Japan as a source of alpha driven returns.

“The rise in Japanese inflation, interest, and exchange rate volatility has refocused attention on the country,” explains Neumann. But he sees, “its equity market largely under invested and less analyzed than other major financial centers. This creates fundamental idiosyncratic corporate long and short investment opportunities.”

**Final Thoughts Before the Election**

It’s likely that interest rates will remain a key driver of markets for the rest of the year. And with Jay Powell remaining at the helm of the Fed, its cautious monetary policies are not likely to change.

But the much greater uncertainty is handicapping the impact on the economy and markets of a Democratic versus a Republican win in November and how much support either leader will have from Congress.

The Democratic National Convention explicitly avoided saying Kamala Harris would continue Biden’s

policies, even though it celebrated the president’s accomplishments.

Still, if she’s elected, Harris is expected to closely track Biden’s domestic and international policies. She would not likely renew the 2017 tax cuts for high income earners.

It’s unclear how much success Harris can realize from a divided Congress. But if she delivers on an aggressive fiscal agenda, this could affect the pace in which the Fed loosens interest rates.

Trump 2.0 would likely scale back a number of Biden’s initiatives and reduce regulations. This may help certain businesses. But his proposed across-the-board tariffs would sting importers and trigger more inflation.

This inward tilt, however, reflects a potential threat to multilateral trade and military alliances critical to making a global marketplace efficient. It would introduce more division amongst our allies.

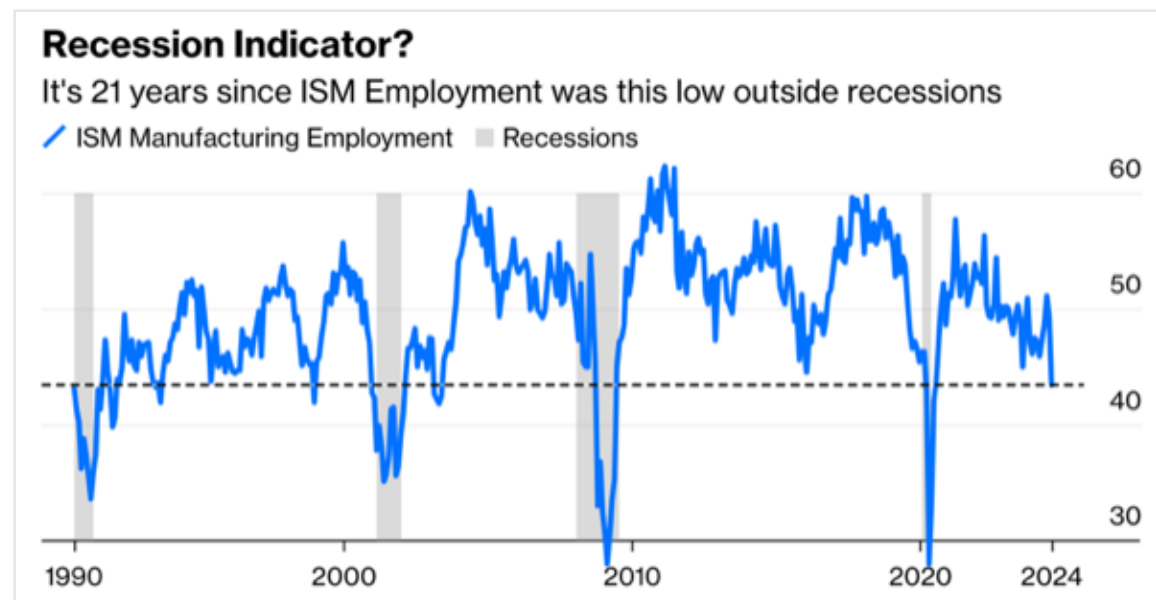
“Many believe US inflation surged due to Biden’s large spending programs. But that doesn’t square with inflation having been a global phenomenon and that US CPI has dropped sharply nearing the Fed’s target rate even as the administration’s big-ticket CHIPs, infrastructure and clean energy programs are just ramping up.”

- Global Investment Report

Corporate America is increasingly planning for greater climate-related disruptions which will likely only get worse and grow more costly, especially if Trump continues to dismiss the issue.

This will happen if Trump

relies even less on non-partisan experts guiding him than he had during his first term. His governance, policies, and penchant for chaos may bring greater unpredictability, which institutional investors and markets are not supposed to like. ■



Source: Bloomberg

huge refinancing demands ramp up over the next two years. Companies that are struggling will see their debt repriced and may become attractive restructuring plays.

This also feeds into Novara’s penchant for convertible

arbitrage. He believes, “refinancing high-cash burn of tech and health-care companies may fuel a rise in the issuance of convertibles to keep borrowing costs down.”

Novara also thinks equity market neutral funds may help reduce risks related to

a slowing economy while capturing some of the upside from companies that continue to thrive.

MEMCO’s Young (who was the former director of investments of the \$40 billion South Carolina Retirement System), says he hasn’t



A booming tech-driven market has outpaced the **Top 50 Hedge Funds** by about 2 percentage points annually over the trailing five years. But during that time, the 50 generated far superior risk-adjusted returns, nearly doubling the market's Sharpe ratio and tripling that of the average hedge fund.

Equity, macro, and multistrategy

funds, representing more than half the Top 50, delivered the strongest returns.

Emerging market funds were the big surprise. Six made the list with 5-year annualized returns averaging 12.5%.

And with 2018's 5% hurdle rate no longer holding back inclusion, a half-dozen big name managers finally made this year's survey.

by Eric Uhlfelder  
25 June 2024

# Hedge Fund Investing During a Time of Cognitive Dissonance

**Rising geopolitical risks--including the outcome of the November elections--persistent inflation, and higher for longer interest rates are still very much front and center. But markets don't seem to care so long as the Fed cuts rates this year.**

I recently learned that Professor Leon Festinger coined the term cognitive dissonance.

He conceived the idea just after the end of World War II while teaching at the University of Minnesota. Legend has it that it came to him when having heard about a cult that claimed extraterrestrials were messaging the end of days was near.

Somewhat doubtful, he wondered how such believers would react when life indeed continued.

Festinger postulated that

the only way to deal with this reality (and the frustration of being so wrong) was for believers to change part of their thinking to reduce the dissonance, add more believers to counter their disproven reality, or as British psychology lecturer and author Dr. Saul McLeod recently wrote, "to re-interpret the evidence to show they were right all along."

Sounds like he might've been referencing those still contesting the 2020 US presidential election or anyone trying to discern the market's direction these days.

When I started thinking about the tenor of this year's survey in early spring, I felt for the first time it would be positive.

For those who have been following my survey since I adopted the current format for *The Wall Street Journal* in May 2019, my title themes begged caution. We saw the rapid collapse of the market at the end of 2018, followed by two years dominated by the pandemic. Then came war and inflation, followed by sharply rising interest rates and the likely prospect of



**In Extremis:** Hamas' brutally insane attack of Israel (left and right images) and the IDF's widespread destruction of Gaza (center image) is leaving a shattered, impoverished, and unstable society of millions on Israel's border.

Credit: AP Photo/Tsafrir Abayov and Reuters/Ronen Zulun.

recession.

I was already writing the lede to this year's report, *Hedge Fund Investing During a Time of Exuberance*, when market enthusiasm suddenly tanked and my concern about risk returned.

This shift in sentiment wasn't due to declining fundamentals. The prospect for both the US economy and corporate profits remains decent. Yet, investors were fretting over mild but persistent inflation that would keep the Fed from returning us to the days of cheap money. The prospect of five or six rate cuts had been replaced by a possible rate increase.

Then in early May, sentiment turned positive on a single data point that could indicate slowing job growth. This

again made rate cuts look more likely, and the market rally was back on, which then got a further boost when jobless claims ticked up.

So, while I'm not expecting to be hampered by outer worldly-inspired prophecies, making sense of the current state of investing (as well as much of the reality around us) may be a matter of seeing past such cognitive dissonance.

Turns out there are a number of folks feeling the same way. AQR's Cliff Asness recently penned a note by that title.

In May economist David Rosenberg wrote: "Do we believe in Walmart's numbers showing expenditures per trip declining for the first time in over two years? Or do we believe in Toll Brothers and

their gangbuster sales and upgraded guidance? Do we believe in the consumer resilience narrative, or the disappointing forecast published by Home Depot? Do we buy into a 30% boom in industrial construction or a flat trajectory for industrial production?"

Rosenberg offered plenty more conflicting examples, leading him to exclaim, "I have been in the business nearly 40 years and have never before witnessed so many crosscurrents occurring at the same time."

Further confusing matters, several leading industry voices are reconsidering a discarded notion that rising interest rates, from virtually nil to 5%, could in fact be stimulative.

## TABLE OF CONTENTS

Strategy Performance	p. 4
<b>Top 50 Consistently Performing Funds</b>	pp. 7-16
Q&A: Eurasia Group's CEO Maziar Minovi Sees a Partitioned Ukraine, Trump Winning, and The Market Ignoring Risks	pp. 17-18
Ambassador Michael McFaul Identifies Links Between the Two Wars	pp. 21-22
Why Some Good Funds Didn't Make the List	p. 26
New Research Affirms Past Performance May Portend Future Returns	pp. 27-28
4 Fund Profiles	pp. 5, 20, 23 & 29

## Consolidated Top 50 Hedge Fund Performance By Strategy

No. of Funds	Strategy*	5-Year Ann. Returns thru 2023	5-Year Sharpe Ratio
11	Equity	18.63	1.29
5	Macro	15.90	1.15
10	Multistrategy	12.69	2.13
2	Event Driven	12.58	0.70
6	Emerging Markets	12.49	1.16
2	Volatility Arbitrage	12.33	0.57
7	Credit and Fixed Income	10.26	1.00
2	Municipal Credit	9.28	1.90
Top 50 Averages		13.66	1.43
BarclayHedge Index		6.30	0.53
S&P 500 Total Return		15.69	0.75

\* Five other funds in the Top 50 involved different strategies  
Source: BarclayHedge and proprietary sources

## About This Year's Survey

Global Investment Report's 21st annual hedge fund survey is a comprehensive independent review of the industry's most consistently performing funds.

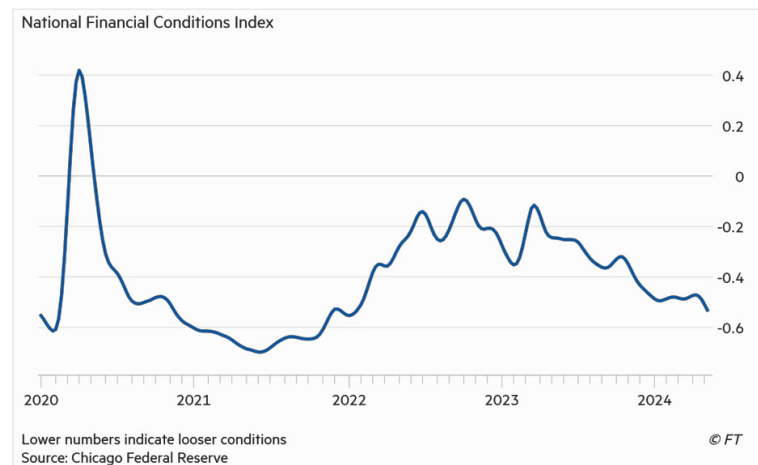
*The Financial Times*, *Barron's*, *The Wall Street Journal*, and SALT commissioned the first 17 editions.

This survey tracks various data over the trailing five years and since inception. In addition to reporting absolute and risk-adjusted returns, the report also tracks worst drawdown, volatility, and market correlation. Collectively, these figures provide a nuanced understanding of performance.

By combining extensive statistical study with interviews of leading managers, allocators, and independent analysts, this report explains the sources of consistent long-term performance that only a handful of hedge funds have been able to deliver.



**FINANCIAL CONDITIONS HAVE EASED TO LEVELS LAST SEEN IN 2022**



May's Chicago Fed's National Financial Conditions index — which measures how easy it is for companies to borrow money — reached its loosest level in over two years.

The author of this notion, according to a recent Bloomberg article, was economist Warren Mosler. David Einhorn (whose fund Greenlight Capital ranked 10th in this year's survey) is now preaching the same thought, believing the explosion of higher yielding US Treasury debt is filling the pockets of investors with new-found cash which they're spending.

But veteran distressed investor Jason Mudrick (whose eponymous distressed fund earned a 34th ranking) shares the long-held majority view that sharply higher financing costs more than offset greater income investors are receiving on their bond investments.

Looking beyond markets, Maziar Minovi, CEO of the global geopolitical advisory Eurasia Group, sees a great deal of dissonance beyond financial affairs. (See Minovi's interview on pp 17-18.)

"In the US, we saw well-established support for Ukraine and the argument for Russian containment questioned by a few that delayed critical support for Ukraine by six months," said Minovi. "At the same time, we saw a critical long awaited bi-partisan southern border bill not even make it to a vote in the House."

A robust economy and a surging stock market would likely ensure a presidential incumbent is returned to office. The current bout of inflation can complicate matters. But Maziar says, "we believe Trump is favored to win," despite having been impeached twice, now a convicted felon, and facing three more trials.

EG based that call on the US Supreme Court's unexpected decision to consider the argument against unlimited presidential immunity. "In doing so, the court likely delayed the most serious cases

against Trump until after the November elections, and this is what tilted the group's calculus in favor of Trump," explains Minovi.

Then there's Hamas' reprehensible attack on Israel, which the Palestinians knew would result in a bloody and destructive war in Gaza. But history may also judge the Israeli response comparable to Russia's bombardment of Chechnya and Syria.

Minovi believes Israel's response could also hurt Biden's chances of winning in November. And though inspired to make the country more secure, the IDF's actions are not likely to make Israel safer; a broken shattered society on Israel's border will be dangerously unstable for years to come.

Back in the hedge fund world, I recently reported about the Top 50's uncharacteristically large underperformance in 2023. (See 4Q2023 Update.) A surprising number of proven fund managers lost their way last year while economic and market conditions were turning brighter.

As a result, ten solid performers that have made my survey for years didn't qualify for the 2024 list because their returns couldn't reach the 5% hurdle for 2023. None of my previous surveys ever saw this level of exodus of well-established funds.

This list included large venerable macro managers Tudor and John Street Capital, Schonfeld's multistrategy and equity funds, and Asian

multistrategy Segantii — which had enjoyed a rapid growth in assets, peaking around \$6 billion, before stumbling last year.

(It's pure coincidence that after being bounced off this year's list due to losing money in 2023, Segantii's PM was charged by Hong Kong's Securities and Futures Commission with insider trading, which has led two of its prime brokers — JP Morgan and Nomura — to pare back operational support. Then in late May, the fund announced it was closing down and returning all assets.)

Despite a solid first-quarter start by most funds on the list (up an average of 4.2%) and decent economic indicators, perhaps all these divergent signals suggest markets might again turn uncertain.

This is one of many issues we'll be addressing throughout this survey, thoroughly mindful that by the time I'm finished writing it, sentiment will no doubt have changed several times over.

And a coda from Professor Festinger . . . in 1968 he joined the progressive faculty at The New School for Social Research in New York. Several years later, he finished his last significant thesis before his passing in 1989. Entitled "The Human Legacy," his research addressed mankind's tendency to unwittingly create problems that are sometimes worse than what it was trying to solve.

One prescient example he cited: the creation of new technologies without being fully able to foresee their long-term consequences, which these days seems to be a topic on nearly everyone's mind.

**METHODOLOGY**

The value of any survey is rooted in its methodology. That's why this section of the report is placed up front.

Below is an explanation of how this survey identifies the limited number of funds that have delivered consistently compelling performance to reveal the industry's promise.

The initial search starts in early February by reviewing various databases. They initially screen for only broad strategy funds. The reason: to seek out managers who have consistently delivered gains with low to moderate volatility without the support or headwind associated with specific industry or country exposure.

**Universe Expansion**

Starting with last year's survey, I consider two types of funds I had previously excluded.

The first is diversified long-short commodity funds that include a global macro component. They must contend with volatile markets, along with financial, geopolitical, supply chain and transport forces. They are far more complex and diversified investments than they appear to be on the surface.

The second group is exogenously levered funds. A fund that seeks to enhance performance of a flagship product by ratcheting up leverage beyond what's embedded in specific investments feels like a cheat to juice returns at the risk of greater volatility. But a deeper dive into this space reveals funds that have contained risk while delivering consistent absolute returns.

**Data Verification**

Requiring funds to manage at least \$300 million may

help ensure reliability of data. When funds reach that size, they may more likely hire top-tier service providers — administrators, prime brokers, accountants, and lawyers — whose involvement may help deliver best-in-class practice, reporting accuracy, and greater institutional investor interest and oversight.

The survey applies another layer of data verification by contacting each manager to confirm their numbers. While each fund feeds data

directly into databases from which this report sources half its findings, mistakes can still happen. Submitted data may be from a founders' class with low fees, numbers may have been revised, or strategy classification of a fund may be wrong. UCITS and '40 Act funds do slip into databases.

The latter can happen as an increasing number of hedge funds expand their investor base by issuing exchange-traded and UCITS-compliant versions

**HEDGE FUND STRATEGY PERFORMANCE THRU 2024**  
Ranked by 2023 Returns

Strategy	2024 Net Returns (%)	2023 Net Returns (%)	3-Year Net Annualized Returns (%) thru 2023	5-Year Net Annualized Returns (%) thru 2023	10-Year Net Annualized Returns (%) thru 2023
Equity Long Bias	14.96	14.47	5.00	9.19	5.62
Collateralized Debt Obligations	16.54	13.57	5.74	3.70	7.44
Asset-Backed Securities	11.87	9.73	6.18	4.30	6.81
Event Driven	7.46	9.18	4.70	6.53	4.60
Emerging Markets	10.42	8.58	-0.90	4.84	3.46
Fixed-Income Arbitrage	11.40	8.45	2.49	4.02	3.81
Credit Long/Short	4.97	7.25	0.41	1.97	1.98
Fixed-Income Diversified	5.98	7.14	-0.52	1.98	2.46
Mortgage-Backed Securities	6.37	6.87	1.52	1.49	2.89
Equity Long/Short	9.31	6.62	5.64	6.55	4.48
Credit Long-Only	4.51	6.04	-1.99	0.86	2.04
Volatility Trading	3.01	6.01	3.10	4.83	2.46
Equity Market Neutral	12.14	5.69	5.55	2.91	2.60
Asset-Backed Loans	7.68	5.50	4.96	5.59	5.56
Global Macro	9.16	4.86	6.71	7.58	4.36
Convertible Arbitrage	9.51	4.74	3.44	6.74	4.25
Merger Arbitrage	4.44	4.57	4.37	5.72	4.88
Multistrategy	6.50	3.45	3.34	3.89	3.10
Distressed Securities	12.55	2.14	4.68	5.84	3.70
Commodity Trading Advisers	3.52	-0.44	3.86	4.43	2.40
<b>Top 50 Averages</b>	<b>13.12</b>	<b>12.47</b>	<b>12.25</b>	<b>13.66</b>	<b>NA</b>
Backstop BarclayHedge Index	9.71	9.27	3.40	6.30	4.50
S&P 500 Total Return Index	25.02	26.29	9.99	15.69	12.03
JPMorgan Global Gov't Bond Index	0.15	4.25	-4.03	-0.21	1.37

Source: Backstop BarclayHedge and Global Investment Report



## MUDRICK DISTRESSED OPPORTUNITIES

## A Rare Glimpse Inside Consistency

Since the current selection methodology for the Top 50 was established 6 years ago for *The Wall Street Journal* (published in May 2019), the Mudrick Distressed Opportunity Fund (ranked No. 34) is one of only 10 funds that have made this exclusive list that year and every year since.

That puts this New York-based manager—who doesn't give many interviews—in rarefied space alongside the likes of Citadel and D.E. Shaw. Delivering 10%+ annualized returns since its mid-2009 inception is especially compelling given the fund's focus on distressed investments during a largely bullish market.

A lawyer by training, Jason cut his teeth in the space at one of the leading distressed shops Contrarian Capital. His time there was bookended by two extraordinary bankruptcies:

Enron, when he came on board at the end of 2001, and Lehman Brothers, when he departed 7 years later to set up his own fund.

Mudrick Distressed did very well right out of the gate, racking up double-digit gains in four of his first six years. Early on, the fund's small size enabled it to participate in a range of under-the-radar opportunities.

The PM now sees his multi-billion-dollar shop providing greater advantage. "We can hire more analysts to scour and uncover the most compelling opportunities across the \$5.5 trillion universe of non-investment grade credit," explains Mudrick. The fund can also provide a ready source of capital on its own terms.

Mudrick currently has 20% of its investments in the UK and EU. But its primary target is US middle-market companies with enterprise values between \$1 and \$5 billion. These are established firms involving deals each large enough to move fund performance while still being small enough to uncover value.

Basic tenets: The fund doesn't use leverage. It limits maturities and duration risk to within three years. Two-thirds of investments are first-lien positions and targeted IRR is around 20%. To help achieve this outcome, the fund often engages in constructive activism. "Managing over \$3 billion," says Mudrick, "enables us to often gain a prominent place in financial negotiations, which helps us achieve our goals."

Mudrick has had just two down years out of 14 due to a disciplined investment process that limits downside risk. He eked out a small gain in 2022 when rates soared and valuations fell by cashing out of a sizable post-reorg equity position that was acquired.

The fund makes money on two-thirds of its investments. "More importantly," says Mudrick, "of the 230 or so investments we've made, we have only lost more than 1% of the fund's assets on 10 investments, and only one loss exceeded 6%. Since inception, winners have gener-



Jason Mudrick

ated 4.5 times more gains than what its losers have lost."

The fund, however, recently took a hit in the first quarter of 2024 when a two-year post-bankruptcy deal saw a portion of its profits erode, explains Jason, after a third-party which bought the company refused to honor Mudrick's existing warrants. He had negotiated these obligations when he had been on the company's board. The case is being litigated.

The PM learned a key lesson in 2015 when the fund tanked 26% due to collapsing oil prices. "We had about a third of our holdings in what we thought were uncorrelated energy concerns, such as fracking, oil exploration, and off-shore rigs," Jason remembers. "But they all fell in lockstep with crude prices."

Since then, Mudrick has capped sector exposure around 10% with current holdings across many different spaces, ranging from media and entertainment, consumer services, capital goods, and telecommunications.

Over the years, Jason also realized that he wasn't very good at timing macro risks, whether in establishing hedges or deciding how much cash to hold. Instead, the firm focuses its attention exclusively on uncovering undervalued idiosyncratic situations based solely on their own merits.

The fund's management and performance has helped it to establish a sticky institutional investment base, with nearly two-thirds of assets belonging to pensions, endowments, and foundations.

Currently, most of Mudrick's exposure has largely been focused on stressed situations and liability management transactions where he can collect an attractive yield and capital appreciation over a 1-3-year period.

But that exposure is regularly shifting based on opportunities that meet the fund's thresholds.

Prior to 2022, Mudrick says most of his investments were involved with bankruptcies, when cheaply acquired distressed debt turned into more valuable post-reorg equity.

Does he expect a return to such opportunities after the rapid rise in interest rates?

Not over the near term as the economy has remained liquid and resilient.

But he believes there will be a reckoning in the medium term given the vast majority of \$5.5 trillion of extant junk-rated debt was raised when rates were very low. "The Fed will not likely cut rates substantially unless there's an economic contraction," posits Mudrick, "which means we'll likely see a rise in corporate failures (and a rise in distressed opportunities) before cheaper refinancing is available."

of their funds. It's essential to distinguish performance between hedge funds and their lower cost more liquid versions.

There are always a handful of managers who refuse to verify their numbers. This does not mean their data is unreliable. But it reinforces the need for prospective investors to always conduct their own due diligence. The numbers provided here are only a starting point.

**Performance Hurdles**

The survey's most distinguishing filter is application of performance hurdles set for each of the last five years. They appear on the top of each yearly data column on pp. 7-16. For 2023, the hurdle was 5.75%.

Collectively, they ensure minimum absolute returns. This enhances the survey as a source of consistently performing managers regardless of what the market is doing.

Hurdles have excluded many venerable funds that had previously made the cut, including Renaissance, Tiger Global, Element Capital, and Alphadyne.

The hurdle was initiated in the 2019 survey I prepared for *The Wall Street Journal*, which tracked performance over a trailing 5-year period through 2018. Because 2018 was the first year in a decade when the market had lost money, requiring minimum net returns of 5% for that year was an objective way to see which funds delivered

some form of alpha — or to paraphrase Warren Buffett, to reveal those managers who had trunks on when the tide went out.

That same hurdle was also instituted for the year ending in 2019. For 2020 and 2021, it was lowered to 4.5%, reflecting the decline in risk-free interest rates. The reasoning: funds should generate at least a modest amount above that rate.

While this hurdle rate was low for equity managers, it addresses the reality that not all strategies benefit from a roaring stock market. And then came 2022.

The risk-free rate rose substantially that year while stocks and bonds declined sharply. That posed a conundrum in determining a reasonable hurdle rate.

The hurdle rate for 2022 was -5%, which represented significant outperformance for any strategy. Still, 44 of last year's Top 50 funds made money. Only three lost more than -2%.

Besides highlighting the most consistently performing managers, hurdle rates control downside risk.

Minimum performance standards impose a certain discipline on funds to make the list. This could involve periodically taking profits off the table and successfully redeploying assets, rather than betting dramatic gains beget more gains. The latter can fuel complacency and enhance risk.

This has been evident in the annual rotation of the survey's leading funds.

Hurdles have knocked off highly ranked funds that are most at risk when market conditions change. Five of last year's top 7 funds didn't make this year's cut.

The main reason: 2023

proved very hard for many managers (regardless of strategy) to get a confident read on markets. Caution wasn't rewarded. While virtually every prognosticator was expecting recession, markets kept on rallying as the macro news grew more positive.

**KEY TRAILING 5-YEAR FINDINGS**

- The S&P 500 TR outperformed the Top 50 by 2 percentage points.
- But the Top 50 generated superior risk-adjusted returns vs the S&P 500. (See table on p. 2.)
- Average market correlation was 0.31.
- Equity managers (the largest strategy by count with 11 funds) delivered the highest gains, outpacing the market by 3 full percentage points.
- Five macro managers generated returns that matched the market.
- Biggest surprise: six emerging market managers made the survey generating annualized returns of 12.5%; five were credit focused.
- Average age of the Top 50 (15.2 years) jumped by more than 1 year from the 2023 survey.
- This was due to the 5-year ranking period no longer including 2018. That year's 5% minimum return hurdle excluded many familiar managers who now qualified for this year's survey.
- These new members include AQR, Greenlight Capital, Point 72, GoldenTree and Magnetar.
- Their inclusion pushed down the number of funds that jumped from last year's list to this year's list from 30 to 25.
- This shift also pushed up the average fund size to \$3.7 billion from last year's average of \$3.6 billion.
- But the Top 50 still had a tilt towards smaller funds. Median average fund size was \$1.5 billion with 19 funds managing less than \$1 billion. This subgroup's average age was more than 10 years, which indicates greater management focus on performance than asset gathering.
- More than one quarter of the Top 50 funds were managing less than \$750 million.
- Five-year minimum performance threshold for inclusion jumped by more than two full percentage points from last year, from 5.17% to 7.26%.



HISTORICAL RANKINGS†					Fund Name	Launch Date	Strategy	Fund / Firm Assets (\$ Million)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (Hurdle: -5%)	2023 Net Returns (Hurdle: 5.75%)	2024 Net Returns	3-Year Annualized Net Returns (%) thru 2023	5-Year Annualized Net Returns (%) thru 2023	Annualized Net Returns (%) since inception thru 2023	Worst Draw Down (%) Last 5 Yrs thru 2023	Worst Draw Down (%) since Inception thru 2023	5-Year Annualized Standard Deviation thru 2023	Annualized Standard Deviation since Inception thru 2023	5-Year Sharpe Ratio thru 2023	Sharpe Ratio since Inception thru 2023	5-Year Fund Correlation versus S&P 500 TR thru 2023
'19	'20	'21	'22	'23																				
NA	NA	NA	NA	1	Peconic Grenadier (New York)	Jul-86	Equity Long-Short	1,066 / 1,470	18.59	43.69	34.21	19.56	23.54	16.63	25.62	27.56	11.22	-20.64	-47.64	21.08	18.91	1.22	0.46	0.44
NA	NA	NA	NA	2	Engine Capital LP (New York)	Jul-13	Equity Long-Bias	386 / 901	51.93	25.77	32.58	6.58	15.48	15.21	17.73	25.54	14.96	-18.96	-19.28	15.40	13.44	1.53	1.02	0.76
12	19	13	3	3	Citadel Wellington (Miami)	Nov-90	Multistrategy	48,000 / 58,000	19.32	24.51	26.58	38.22	15.30	15.10	26.35	24.55	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	4	Cooper Creek Partners (New York)	Nov-08	Equity Long-Short	715 / 1,970	22.04	21.16	21.80	42.43	14.98	14.03	25.88	24.15	11.22	-9.01	-22.12	12.48	11.35	1.83	0.90	0.06
49	26	10	5	5	Anson Investments Master (Toronto)	Jul-07	Equity Long Short	1,114 / 1,750	10.08	44.52	45.50	7.58	18.21	10.10	22.77	24.11	15.43	-4.46	-18.68	11.47	10.51	1.91	1.23	0.21
15	22	15	10	6	Waha MENA Equity Fund SP (A) (Abu Dhabi, UAE)	Jan-14	Emerging Markets - MENA	966 / 2,400	19.70	14.07	32.80	12.80	24.34	1.20	23.06	20.56	16.80	-13.40	-13.40	9.60	9.20	1.94	1.70	0.19
NA	23	19	9	7	Citadel Tactical (Miami)	Jan-08	Quantitative Equity	1,840 / 58,000	20.30	20.24	21.55	25.75	14.80	22.30	20.61	20.48	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	9	8	8	Voss Capital Value Master LP (Houston)	Oct-11	Equity Long/Short	313 / 889	21.17	23.84	39.13	1.11	19.20	19.97	18.85	20.29	18.16	-10.74	-21.20	23.47	17.36	0.78	0.98	0.74
NA	NA	NA	NA	9	AQR Helix -- Alt. Trends Composite (Greenwich, CT)	Jan-18	Quantitative Macro	1,232 / 99,000	14.52	20.75	6.91	49.12	14.03	17.92	22.05	20.25	15.17	-11.09	-15.41	13.43	13.06	1.36	1.01	-0.28
NA	NA	NA	NA	10	Greenlight Capital (New York)	May-96	Equity Long-Short Value	3,100 / 3,100	13.80	5.20	11.90	36.60	22.10	7.20	23.12	17.44	NA	NA	NA	NA	NA	NA	NA	NA
						BarclayHedge Hedge Fund Index	NA	NA / NA	10.64	11.14	10.22	-8.22	9.27	9.71	3.40	6.30	7.66	-11.90	-24.09	8.23	7.13	0.53	0.79	0.91
						S&P 500 Total Return Index	NA	NA / NA	31.51	18.40	28.72	-18.14	26.29	25.02	9.99	15.69	11.79	-23.89	-50.95	18.37	15.28	0.75	0.51	1.00

† Ranked by trailing 5-year net annualized returns thru 2023.

NA = Performance data was not available or fund did not qualify for inclusion.

The Top 50 funds collectively generated 5-year annualized gains through 2023 of more than 13.7%. That was 2 percentage points less than the S&P 500. But it was more than double the return of the average hedge fund reported by BarclayHedge.

But when looking at risk-adjusted returns (Sharpe ratio) over the same period, the 50 generated vastly superior

numbers. The market's was 0.75 with the Top 50's nearly twice that number and almost three times that of the average hedge fund.

Digging deeper reveals the source of these superior numbers.

The market's standard deviation over the trailing five years averaged over 18%; the Top 50's was 9.9%. The average hedge fund was 8.2%.

The market's worst draw-down over this time was nearly -24% when the pandemic initially hit. But the Top 50's worst drawdown during that time was -10.5%. The average hedge fund's was nearly -12%.

Limited correlation to the market — 0.31 — further confirms this dispersion. BarclayHedge reported the average hedge fund correlation

to the market was 0.91. Looking back across the 15-year average life of Top 50 funds tells the same story of superior risk-adjusted returns.

Past performance doesn't assure anything. But when management teams and strategy don't change, long-term consistency can be a pretty good indicator of an

effective and repeatable investment process. And when that process has delivered attractive gains regardless of what the market is doing, then maybe that's something worth looking for.

This was the conclusion of a white paper I wrote with Ben Crawford, head of research at BarclayHedge, entitled [Challenging Convention](#).

**“We’re seeing a less interest-rate sensitive economy being driven by services and technology companies that tend to have higher margins and cash flow and less debt than goods-producing companies, so they’re not as affected by rising interest rates and tightening credit conditions.”**

**- Ed Yardeni, Economist**



HISTORICAL RANKINGS†					Fund Name	Launch Date	Strategy	Fund / Firm Assets (\$ Million)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (Hurdle: -5%)	2023 Net Returns (Hurdle: 5.75%)	2024 Net Returns	3-Year Annualized Net Returns (%) thru 2023	5-Year Annualized Net Returns (%) thru 2023	Annualized Net Returns (%) since inception thru 2023	Worst Draw Down (%) Last 5 Yrs thru 2023	Worst Draw Down (%) since Inception thru 2023	5-Year Annualized Standard Deviation thru 2023	Annualized Standard Deviation since Inception thru 2023	5-Year Sharpe Ratio thru 2023	Sharpe Ratio since Inception thru 2023	5-Year Fund Correlation versus S&P 500 TR thru 2023
'19	'20	'21	'22	'23																				
NA	NA	NA	NA	11	Beryl Capital Partners (Redondo Beach, CA)	Jan-17	Event Driven	506 / 543	13.72	20.40	35.77	1.42	15.32	23.62	16.66	16.81	13.87	-26.00	-26.00	25.03	21.27	0.60	0.54	0.33
NA	NA	NA	NA	12	Starboard Value (New York) ^^^	Sep-02	Activist	3,440 / NA	16.07	18.20	20.60	5.08	22.75	4.20	15.87	16.37	13.52	-9.06	TK	TK	TK	0.92	TK	TK
24	30	23	11	13	DE Shaw Composite (New York) *	Mar-01	Multistrategy	23,900 / 68,000	10.33	19.14	18.35	23.99	9.60	18.00	17.16	16.15	12.48	NA	-17.38	NA	5.41	NA	2.01	NA
NA	NA	17	15	14	Dynamic Alpha L.P. (Seattle) <	May-16	Volatility Arbitrage	685 / 755	18.31	17.28	15.62	12.53	16.51	NA	14.87	16.03	16.66	-27.89	-27.89	26.51	21.72	0.53	0.69	0.00
NA	NA	NA	14	15	DE Shaw Oculus (New York) *	Mar-00	Global Macro	10,600 / 68,000	11.56	25.02	15.19	20.30	7.80	36.10	14.31	15.81	13.06	NA	-9.70	NA	8.23	NA	1.40	NA
40	32	34	16	16	Citadel Global Fixed Income (Miami) ^	Aug-12	Macro/Fixed Income	3,300 / 58,000	5.49	17.53	12.97	33.15	10.90	9.70	18.60	15.64	NA	NA	NA	NA	NA	NA	NA	NA
6	4	8	13	17	Millstreet Credit (Boston)	Jun-10	Credit Long/Short	2,276 / 2,764	15.86	21.38	20.42	4.84	14.24	12.55	13.00	15.20	12.00	-4.39	-33.26	5.20	8.00	2.50	1.40	0.21
NA	NA	18	18	18	Enko Africa Debt B (London)	Oct-16	African Macro/Fixed-Income RV	607 / 729	25.07	25.24	9.42	1.03	16.37	27.28	8.76	15.04	13.81	-21.19	-21.19	12.84	10.75	1.04	1.13	0.28
NA	36	28	19	19	Millennium USA LP (New York)	Jan-90	Multistrategy/Credit Rel. Value	19,673 / 63,200	9.73	25.28	13.43	12.47	10.03	14.96	11.96	14.05	13.63	-0.64	-7.01	3.53	4.19	3.43	2.64	0.04
NA	NA	NA	NA	20	EDL Global Opportunities (Pfaffikon,Switz.)	Sep-15	Global Macro	943 / 1,275	6.32	23.48	15.90	14.81	10.42	-5.67	13.69	14.04	11.35	-11.20	-11.20	13.23	11.56	0.92	0.86	0.12
					BarclayHedge Hedge Fund Index	NA		NA / NA	10.64	11.14	10.22	-8.22	9.27	9.71	3.40	6.30	7.66	-11.90	-24.09	8.23	7.13	0.53	0.79	0.91
					S&P 500 Total Return Index	NA		NA / NA	31.51	18.40	28.72	-18.14	26.29	25.02	9.99	15.69	11.79	-23.89	-50.95	18.37	15.28	0.75	0.51	1.00

† Ranked by trailing 5-year net annualized returns thru 2023. ^ Citadel Global Fixed Income 3Q24 returns are unavailable..

\* Point 72 and DE Shaw Composite and Oculus "since inception" data points are through March 2024.

< Dynamic Alpha closed down its fund in August. See sidebar in 3Q24 update.

NA = Performance data was not available or fund did not qualify for inclusion.

## Size

Another key finding of this survey is that steady consistent performance comes in all fund sizes. It's not the exclusive realm of the industry's largest and best-known managers.

Only 10 funds that made the survey were running more than \$5 billion. They include

venerable names, such as Citadel, D.E. Shaw, Point 72, Millennium, GoldenTree, Hudson Bay, and Drawbridge.

But nearly twice as many (19) were managing less than \$1 billion and 14 of these were managing \$750 million or less. The average age of this subgroup was more than 10 years, which suggests

managements' greater focus on performance rather than asset gathering.

Unless you're a regular reader of this survey, few of these smaller funds would be familiar names. But they've been regularly well represented. After many years interviewing such managers (three of whom are profiled in this year's survey), I've

found one common driver of consistency: they enjoy a greater range of investment opportunities.

Unlike larger funds that need sizable investments to move their performance needles, smaller managers can pursue a full range of opportunities, from undersized and under-researched securities to the largest multinationals.

## Leaders

Of the top ten funds with the highest 5-year annualized returns through 2023, eight were equity strategies. And four were managing less than \$1 billion.

The top-performing fund is the oldest fund in the survey.

The roots of New York-based Peconic Grenadier date

back to when Ronald Reagan was president, having been launched in July 1986 by Forstmann-Leff Associates. It was then spun out as a stand-alone entity in 2004 led by William Harnisch who remains the fund's CIO.

It has generated annualized returns of 27.6% since 2019. Since inception, the fund has been up more than 11%

a year.

The \$1.1 billion hedge fund quietly goes about its business without much celebrity. It feels like an old-school hedged equity shop that relies on a small team to suss out the most compelling growth and value opportunities primarily in the US. It then transforms its research into a short list of high-con-

viction long trades with risk managed through selective hedging.

This tends to leave its net long position around +35%, but it does flex from neutral to +50%.

The fund didn't previously qualify for the Top 50 because it lost money in 2018. But since then, it has taken



HISTORICAL RANKINGS†					Fund Name	Launch Date	Strategy	Fund / Firm Assets (\$ Million)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (Hurdle: -5%)	2023 Net Returns (Hurdle: 5.75%)	2024 Net Returns	3-Year Annualized Net Returns (%) thru 2023	5-Year Annualized Net Returns (%) thru 2023	Annualized Net Returns (%) since inception thru 2023	Worst Draw Down (%) Last 5 Yrs thru 2023	Worst Draw Down (%) since Inception thru 2023	5-Year Annualized Standard Deviation thru 2023	Annualized Standard Deviation since Inception thru 2023	5-Year Sharpe Ratio thru 2023	Sharpe Ratio since Inception thru 2023	5-Year Fund Correlation versus S&P 500 TR thru 2023
'19	'20	'21	'22	'23																				
NA	NA	NA	NA	21	Context Partners Fund, LP (La Jolla, CA & Greenwich, CT)	Jan-09	Convertible Arbitrage/RV	733 / 1,222	10.88	34.66	15.33	0.20	11.00	20.66	8.65	13.88	13.05	-7.29	-7.29	7.42	7.27	1.75	1.67	0.32
NA	NA	NA	NA	22	Massar Macro Commodity (Stamford, CT)	Sep-13	Macro Commodity	928 / 1,450	23.57	26.39	4.56	5.83	10.31	-3.05	6.87	13.77	9.71	-5.66	-11.35	10.03	8.87	1.18	0.95	-0.02
NA	NA	NA	NA	23	Verition Multistrategy Composite (Stamford, CT)	Mar-08	Multistrategy	8,300 / 8,700	14.71	30.41	8.60	5.57	8.19	11.60	7.44	13.16	12.86	-0.75	-7.89	3.64	5.65	3.08	2.12	0.19
NA	NA	NA	NA	24	Glazer Enhanced Offshore Ltd. (New York)	Aug-10	Merger Arbitrage	1,714 / 1,922	8.30	37.67	10.87	3.52	6.69	7.99	6.97	12.78	9.13	-9.01	-9.01	10.41	6.63	1.02	1.21	0.43
NA	NA	NA	NA	25	Point 72 (Stamford, CT) *	Feb-18	Multistrategy	NA / 32,300	15.02	17.55	9.19	10.29	10.53	18.60	10.00	12.47	11.17	NA	-23.28	NA	8.04	NA	1.23	NA
NA	NA	NA	NA	26	Hawk Ridge Master LP (Los Angeles)	Aug-07	Equity Long-Short	2,831 / NA	21.51	19.37	9.54	1.29	11.54	4.71	7.37	12.42	11.97	-13.66	-30.46	11.96	11.09	0.88	0.96	0.83
NA	NA	NA	NA	27	GoldenTree Master Select (New York)	Jul-00	Fixed-Income Relative Value	10,720 / 55,000	10.13	11.35	21.66	1.62	15.00	13.93	12.44	11.76	8.62	-7.60	-15.31	9.70	7.03	1.01	1.06	0.69
25	43	46	27	28	Blue Diamond Non-Directional (Pfaffikon, Switz.)	Oct-11	Statistical Arbitrage	2,020 / 2,020	5.09	11.78	16.36	5.99	19.69	11.85	13.86	11.64	14.63	-4.95	-9.69	8.14	10.59	1.19	1.28	0.43
NA	NA	26	28	29	Whitehaven Credit Opportunities Master (New York)	Dec-09	Municipal Credit Opportunities	1,409 / 1,440	9.28	28.15	7.40	5.52	6.88	6.64	6.60	11.15	10.05	-1.44	-1.75	3.68	3.51	2.49	2.46	0.09
29	25	22	30	30	Boothbay Absolute Return Strategies (New York)	Jul-14	Multistrategy/ Credit Rel. Value	1,530 / 2,610	11.8	25.24	11.38	1.27	6.56	6.92	6.33	10.97	9.67	-1.80	-2.41	4.41	4.05	2.06	2.05	0.30
					BarclayHedge Hedge Fund Index	NA		NA / NA	10.64	11.14	10.22	-8.22	9.27	9.71	3.40	6.30	7.66	-11.90	-24.09	8.23	7.13	0.53	0.79	0.91
					S&P 500 Total Return Index	NA		NA / NA	31.51	18.40	28.72	-18.14	26.29	25.02	9.99	15.69	11.79	-23.89	-50.95	18.37	15.28	0.75	0.51	1.00

† Ranked by trailing 5-year net annualized returns thru 2023.

\* Point 72 and DE Shaw Composite and Oculus "since inception" data points are through March 2024.

NA = Performance data was not available or fund did not qualify for inclusion.

off having outpaced the market by an annualized rate of 12%. Even the outbreak of the pandemic didn't slow down performance. After declining just -12% when the market went into free fall during the early months of 2020, the fund ended the year up 44%. In 2022, when funds and the market tanked, Peconic

gained 19.6%. The fund's worst draw-down over the past 5 years, -20.6%, occurred last year between July and October when industrials sold off and the market corrected by -5%. The fund still ended the year up 23.5%. Peconic's torrid performance accounts for a good deal of its volatility of 21%. But it still was able to generate a

5-year Sharpe ratio of 1.22. The fund's correlation with the market over this time was just under 0.5. The fund appears not to have lost a step going into 2024, having gained more than 9% through March. In April, Harnisch told investors that he saw the macro environment continuing as expected with slow but

steady growth. He believes a strong labor market is helping to keep inflation sticky. "This has helped interest rates to strengthen," he explains, "which influenced our shift to short more of the S&P 500 Index. We continue to believe the market is fully valued, but clearly, the April correction lessens that risk." New York-based Engine Capital (No. 2) is a special sit-

uations fund that often takes an activist role to unlock value in small- to mid-cap companies. Since its launch in 2013, it's been generating annualized returns of nearly 15%. But it's been running much hotter over the past five years, churning out gains of 25.5%. Volatility over that time has been running at 15.4, which has produced an impressive

**“The most significant geopolitical risk markets are misjudging is a second Trump Administration, especially its likely trade policies. I get a lot of push back on this call. But we believe these risks will affect a wide range of investments.”**

- Maziar Minovi, CEO Eurasia Group



HISTORICAL RANKINGS†					Fund Name	Launch Date	Strategy	Fund / Firm Assets (\$ Million)	2019 Net Returns (Hurdle: 5%)	2020 Net Returns (Hurdle: 4.5%)	2021 Net Returns (Hurdle: 4.5%)	2022 Net Returns (Hurdle: -5%)	2023 Net Returns (Hurdle: 5.75%)	2024 Net Returns	3-Year Annualized Net Returns (%) thru 2023	5-Year Annualized Net Returns (%) thru 2023	Annualized Net Returns (%) since inception thru 2023	Worst Draw Down (%) Last 5 Yrs thru 2023	Worst Draw Down (%) since Inception thru 2023	5-Year Annualized Standard Deviation thru 2023	Annualized Standard Deviation since Inception thru 2023	5-Year Sharpe Ratio thru 2023	Sharpe Ratio since Inception thru 2023	5-Year Fund Correlation versus S&P 500 TR thru 2023
'19	'20	'21	'22	'23																				
NA	28	16	29	31	FengHe Asia Fund Ltd (Singapore)	Dec-12	Asian Emerging Markets	3,012 / 3,872	6.47	19.10	27.20	-4.82	9.20	10.34	9.75	10.89	13.12	-11.50	-11.50	10.38	10.80	0.86	1.08	0.57
NA	NA	NA	NA	32	Bay Point Capital Partners II LP (Atlanta)	Jul-18	Asset-Backed Loans	563.3 / 697	8.92	7.76	12.87	13.47	10.95	9.80	12.43	10.77	10.61	-0.87	-0.87	1.53	1.45	5.77	5.95	0.25
NA	NA	NA	NA	33	Sandglass Opportunity LP (London) **	Feb-13	Emerging Market Credit ex China	348 / 404	8.98	8.67	15.03	-2.45	24.35	39.81	11.75	10.57	8.20	-20.03	-20.03	13.89	10.73	0.62	0.64	0.57
32	11	25	26	34	Mudrick Distressed Opp. B (New York) ***	Jul-09	Distressed Credit	1,700 / 3,200	22.23	11.28	7.94	0.84	11.43	31.70	6.56	10.46	10.03	-19.50	-31.31	16.04	12.68	0.53	0.72	0.15
NA	NA	NA	NA	35	Palmer Square Opportunistic Credit LP (Mission Woods, KS)	May-12	Opportunistic Credit	636 / 29,485	7.75	10.69	14.53	2.01	16.65	13.58	10.87	10.20	9.16	-23.37	-27.39	12.25	10.26	0.70	0.80	0.47
25	43	46	27	36	Wolverine Flagship Fund Trading Ltd (Chicago)	Sep-01	Multistrategy	3,941 / 3,941	10.58	13.89	10.74	5.75	7.98	12.58	8.14	9.75	7.95	-10.84	-25.96	6.74	6.41	1.16	1.02	0.54
NA	NA	NA	NA	37	Waha Emerging Markets Credit SP (A) (Abu Dhabi, UAE)	Jan-12	Emerging Market Credit	669 / 2,400	15.50	14.90	7.20	1.80	9.50	18.40	6.09	9.64	9.70	-15.80	-15.80	5.40	4.50	1.44	1.80	0.23
NA	45	36	35	38	Hudson Bay LP (New York)	Jan-06	Multistrategy	5,412 / 18,831	7.73	15.75	13.23	3.33	6.09	9.54	7.47	9.13	10.19	-1.21	-6.04	3.51	5.23	2.05	1.69	0.06
NA	NA	NA	NA	39	Marshall Wace - MW TOPS A USD (London)	Jan-05	European Equity Long/Short	5,263 / 62,300	6.12	11.14	14.72	6.71	5.78	4.04	9.00	8.84	7.74	-5.77	-22.60	5.15	6.44	1.34	0.98	0.45
NA	34	40	40	40	Aristeia Partners LP (UR) (New York)	Aug-97	Multistrategy/ Credit Rel. Value	2,213 / 4,463	6.15	21.93	8.17	0.93	7.56	4.44	5.50	8.73	10.56	-4.28	-29.22	4.97	7.45	1.37	1.15	0.30
					BarclayHedge Hedge Fund Index	NA		NA / NA	10.64	11.14	10.22	-8.22	9.27	9.71	3.40	6.30	7.66	-11.90	-24.09	8.23	7.13	0.53	0.79	0.91
					S&P 500 Total Return Index	NA		NA / NA	31.51	18.40	28.72	-18.14	26.29	25.02	9.99	15.69	11.79	-23.89	-50.95	18.37	15.28	0.75	0.51	1.00

† Ranked by trailing 5-year net annualized returns thru 2023. \*\* Sandglass had \$290 million in its comingled fund as of Dec. 2023 and an additional \$58 million committed to a private-equity-styled vehicle that's a concentrated version of the fund.

\*\*\* Mudrick's Distressed strategy includes 4 SMAs whose assets are approximately \$1 billion. NA = Performance data was not available or fund did not qualify for inclusion.

“We don’t see the current equity risk premium as particularly attractive at current valuations, especially when coupled with geopolitical uncertainty.”

- Anthony Novara, Fiducient Advisers

Sharpe ratio of 1.53. A small investment team, led by Arnaud Ajdler, follows a strict approach in identifying quality mispriced businesses in the US and Canada. To enhance value, it looks to improve management, corporate governance, and corporate boards while considering strategic alternatives.

Citadel Wellington, Ken Griffin’s flagship multistrategy fund, a perennial top performer, maintained its number 3 ranking from last year. After soaring more than 38% in 2022, its performance returned back to earth in 2023, being up 15.3%. The fund’s 5-year annualized returns topped 24%. Perennially, the Top 10 experiences the most turnover

of any portion of the survey, and I caution readers not to chase after the highest returns. They are difficult to sustain and are associated with greater risks than funds that generate more modest returns. But this year’s crop may be different. First, there are five new names with well-established

track records. Besides Peconic and Engine Capital, Cooper Creek, AQR Helix and Greenlight Capital comprise the list. Second, the other five have been in the survey for a number of years. They all ranked in the Top 10 last year, and three have been in the survey every year since I first employed this methodology

back in 2019 for *The Wall Street Journal*. Third, the Top 10 all made money in 2022 and then transitioned effectively into last year’s uncertain market with all generating double-digit gains. And fourth, they don’t appear to be thriving by combining concentration and leverage, a formula that tends not to

produce sustainable returns. **STRATEGIES** BarclayHedge tracks 20 different strategies ranging from hedged equity and credit, event driven, to various types of arbitrage and structured credit. “While data provides a broad sense of how individual strategies have been performing over time,” explains Ben Craw-



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'19	'20	'21	'22	'23																				
NA	NA	NA	20	41	Caption Partners II LP (Oklahoma City, OK)	Jun-16	Volatility Arbitrage	376 / NA	5.74	13.39	9.37	5.74	9.10	12.62	8.06	8.63	10.58	-13.44	-14.85	10.90	11.71	0.61	0.76	-0.21
NA	NA	32	41	42	CRC Bond Opportunity Trading (New York) ****	Oct-16	Credit Long/Short	844 / 7,500	13.63	11.37	10.40	1.27	5.94	20.95	5.80	8.43	8.87	NA	-10.81	NA	7.05	NA	NA	NA
10	31	35	32	43	Kryger Event (London)	Sep-13	Event Driven	729 / 729	11.13	9.19	9.26	4.16	8.07	3.37	7.14	8.34	9.33	-14.68	-14.68	9.94	8.49	0.84	0.95	0.32
NA	NA	NA	NA	44	ProMeritum SPC Class A (London)	Jan-15	Emerging Markets Credit	377 / 377	9.61	7.21	4.58	4.53	15.78	15.78	8.17	8.26	8.36	-8.94	-8.94	4.37	4.08	1.35	1.61	0.18
NA	NA	NA	NA	45	Magnetar Constellation Ltd (Evanston, IL)	Mar-07	Diversified Fixed Income	1,643 / 13,400	5.22	18.61	13.53	-3.81	8.97	16.71	5.97	8.23	10.58	-11.78	-13.30	10.18	8.45	0.62	1.12	0.37
NA	37	42	42	46	Mariner Atlantic Multi-Strategy Ltd (New York)	Nov-95	Fixed-Income Relative Value Multistrat.	2,540 / 7,000	10.29	9.95	7.14	4.15	8.22	6.76	6.49	7.93	7.68	-3.21	-29.00	3.36	4.29	1.78	NA	0.17
NA	NA	NA	NA	47	Crestline Summit Equity Alpha Master (Forth Worth, TX)	Jul-15	Equity Market Neutral	1,224 / 17400	10.32	4.87	6.01	5.72	11.95	7.95	7.85	7.73	5.96	-3.54	-4.87	4.28	4.14	1.37	1.08	-0.02
NA	NA	39	45	48	Drawbridge Special Opportunities LP (New York)	Jul-02	Credit Long/Short	6,270 / 45,750	11.01	6.34	15.43	0.66	6.16	8.73	7.24	7.57	NA	-17.30	NA	9.10	NA	0.62	NA	0.49
NA	NA	NA	NA	49	Old Orchard Credit Master LP (New York)	Aug-14	Municipal Credit	1,264 / 1,387	8.65	10.36	6.32	2.93	8.94	6.87	6.04	7.41	7.81	-4.91	-4.91	4.21	3.78	1.30	1.70	0.48
NA	NA	NA	NA	50	RiverNorth Institutional Partners LP (Chicago) <<	Aug-07	Closed-End Fund Arbitrage	815 / 4,960	11.72	11.17	6.48	-1.22	8.70	8.87	4.57	7.26	11.74	-8.18	-8.18	7.11	7.63	0.76	1.35	0.79
Top 50 Averages						15.22 years		3,973 / 17,564	13.44	18.74	15.71	9.24	12.47	13.12	12.25	13.66	11.39	-10.48	-16.59	9.90	8.94	1.43	1.37	0.31
BarclayHedge Hedge Fund Index						NA		NA / NA	10.64	11.14	10.22	-8.22	9.27	9.71	3.40	6.30	7.66	-11.90	-24.09	8.23	7.13	0.53	0.79	0.91
S&P 500 Total Return Index						NA		NA / NA	31.51	18.40	28.72	-18.14	26.29	25.02	9.99	15.69	11.79	-23.89	-50.95	18.37	15.28	0.75	0.51	1.00
JPMorgan Global Gov't Bond Index						NA		NA / NA	6.05	5.55	-2.54	-13.01	4.52	0.15	-4.03	-0.21	6.10	-17.13	-17.13	5.09	5.89	-0.42	0.51	0.37

† Ranked by trailing 5-year net annualized returns thru 2023. \*\*\*\* CRC Bond Opportunity Trading fund assets are as of October 2023. << RiverNorth data includes performance of RiverNorth Capital Partners LP, whose inception dates back to 12/31/2009.

NA = Performance data was not available or fund did not qualify for inclusion.

ford, head of research at BarclayHedge, “they mask the wide dispersion of fund performance within each strategy.” (See table on p.4.) While the challenging year of 2022 saw a wide spread in strategy performance that

exceeded 20 percentage points, 2023 witnessed a drastic rotation in leadership. Emerging Markets was the worst-performing strategy in 2022, down an average of -13.7%. In 2023, these managers racked up gains

of 8.6%, and six were among the most consistent managers across the hedge fund industry. (See more below and fund profiles of Waha and ProMeritum). Last year’s top-returning strategy, Commodity Trading

Advisors which had climbed 7.1%, became the worst-performing strategy in 2023, and the only one that lost money, down -0.4%. No surprise that Equity Long Bias saw the greatest shift in fortunes, from having lost

-13.6% to being the best performing strategy in 2023, having soared on average 14.5%. The second-best performing strategy last year was Col-lateralized Debt Obligations, which gained 13.6%. In 2022,

they lost -7.3%. And Event Driven funds also saw a strong positive rotation from being down -6.4% to gaining 9.2%. Across the Top 50, equity, global macro, and multistrategy generated the strongest

5-year annualized returns while accounting for more than half the funds on the survey. **Equity** Eleven equity funds collectively returned more than 18.6% annualized over the

past five years. With volatility of 13.3%, this produced a Sharpe ratio of 1.3 with a market correlation of 0.5. The three top-performing funds are all smaller funds new to the Top 50. But the most curious feature of their



## Eurasia Group CEO Maziar Minovi Sees a Partitioned Ukraine, Trump Winning, and The Market Ignoring Risks



CEO Maziar Minovi

global investors should price in growing risks which we don't believe will fade away.

### What's the most significant geopolitical risk markets are misjudging?

A second Trump Administration, especially its likely trade policies. I get a lot of push back on this call. But we believe these risks will affect a wide range of investments.

### Do you believe Trump is likely to win this fall?

We believe Trump has a 60% chance of winning, mindful that we're still a half year from November. We recently believed Biden enjoyed a slight edge.

But we changed that call after the Supreme Court agreed to hear the case about presidential

immunity. This has pushed off the most important cases against the former President until after the election.

### What would be some of the likely results of a Trump second term?

Bureaucratically, we would see an erosion of institutional norms and mechanisms in the way the Federal government is run as Trump seeks to increase presidential power. DoJ would stop all federal investigations against Trump and start investigations of real and perceived enemies. He would likely turn a large swath of senior Federal jobs into political appointees.

We expect the market's initial reaction to be neutral, but would likely change in 2025 as the US becomes more protectionist. China may likely lose its Most Favored Nations Status, pushing up its import tariffs from 20% to possibly 60%. Certain domestic sectors and industries will likely benefit from more protectionist policies and from deregulation, especially the energy and financial sectors.

But we believe such policies will negatively impact US growth and inflation, estimates suggest possibly nicking GDP growth by 1% annually over the next 5 years. We would expect an extension of the 2017 tax cuts under Trump, and this would increase the national debt by \$3.5 trillion over the next 10 years.

### You were born in Iran and are an emerging market specialist. Does it surprise you that more than 10% of this year's Top 50 funds focus on that space with 5 being credit?

Yes, but mindful you're citing the most consistently performing managers. With interest rates being where they are, these managers' high single-digit returns and low volatility suggests they are effectively hedging their risks and sticking to higher grade investments.

### They are indeed hedging and employing relative value trades. But affirming your belief in managers containing risks, we've also seen unexpected calm across the Middle East and Eastern Europe markets in spite of war. How do you think the Israeli-Gaza and Russia-Ukrainian wars will proceed for the rest of the year?

In the Middle East, we're seeing an escalation that will likely continue for much of the year. We're worried the conflict could directly involve Iran and retaliations on both sides could easily be expected to go beyond the recent tit for tat. The conflict then has the potential of affecting oil supplies.

When Israel finds Hamas has not been wiped out, even after its Rafah offensive, we'll see nodes of escalation. The West Bank will continue to be a hot spot, and Hezbollah may ratchet up attacks on Israel from the north. It doesn't help that Netanyahu's future as Prime Minister is linked to the continuation of the conflict.

### Won't a broken and dysfunctional Gaza pose as great a risk as Hamas?

The on-the-ground reality in Israel echoes what we saw in the US after 9/11. There is a lot of anger and broad support for continued escalation, especially considering Gaza sits on Israel's border. But our analysts and policymakers agree the Israeli offensive may have created short-term calm in Israel at the expense of an even worse set of longer-term regional risks.

### Do you think the aggressive way Israel has conducted the war in Gaza could set back 30 years of movement towards peace with the Arab World?

That's a plausible narrative. But there's reason for hope. The Saudis are clearly interested in having a strategic deal with the Americans, which could provide them a security umbrella against Iran and its proxies along with access to civilian nuclear power. The price for the Saudis is normalization of relations with Israel, which would be contingent on a 2-state solution for Israel and the Palestinians. That cannot be achieved with Netanyahu in power. The war may have undone progress made over the past several decades. But odds of a broader peace have also risen.

### Could there be an angry populist response across the Arab region that could make this unlikely?

Having been born in Iran and having escaped after the revolution, there is no simple answer to that question. I would say, Yes, but ...

### Turning to Ukraine, what do you think will be the effect of the US' 6-month delay in providing aid to Ukraine?

That delay has enabled Russia to regain an edge on the battlefield. And the risk of escalation is material. But we still anticipate a stalemate with limited market effects stemming from the war.

### Are you concerned that Western support of Ukraine at best only ensures a stalemate and not a Ukrainian victory?

We never thought a Ukrainian victory was possible because the West doesn't have the political will to provide sufficient aid necessary to push the Russians back to its borders. We believe this year there will be a de facto partition of Ukraine recognized

by all. And in 2025, regardless of who occupies the Oval Office, we expect US support will erode. We may see European support also fracturing and the possibility of countries like Poland and the Baltics eventually getting more directly involved in the war.

### Wall Street suffers when there's a breakdown in the rule of law. Many companies wrote down their entire investments in Russia once sanctions were in place. Do you feel there's a place for the financial community to publicly address core geopolitical issues that directly affect them, with at least one purpose being to persuade governments to stabilize and de-risk the globe?

We actively advise corporate clients on this complicated matter. While silence may sidestep criticism, it can also alienate stakeholders. We believe it's not something companies can avoid in an increasingly polarized world. What we are recommending is a sector-sensitive nuanced response, in sync with fiduciary responsibilities, values, aligned with business decisions, recruiting needs, and corporate mission.

Siding with Ukraine may cost a company future business in Russia, but it may also enhance a company's global stature. When H&M and Adidas sided with ethnic Uyghurs in China, in concert with EU regulations, it resulted in Beijing counter-sanctioning European individuals and organizations. Chinese celebrities suspended their endorsements, and products were dropped from major e-commerce platforms such as Alibaba.

### Wall Street is eager for the Fed to reduce rates. Should it? Is there something helpful having attractive risk-free rates in keeping markets from frothing?

I agree there's a lot to like about staying at these levels in maintaining a healthier financial system. Higher rates make US Treasuries more attractive globally, which helps the country meet its debt demands while restraining inflation. But it may likely be holding back growth and push up debt service costs. It also puts pressure on emerging markets, making them less

desirable investments.

### What's your outlook on US inflation and Fed policy for the rest of the year?

With inflation remaining sticky, we believe the Fed will continue the higher for longer policy. But an escalated trade war with China could worsen current inflation and growth prospects, putting the Fed in a bind.

### What about European interest rate prospects?

Europe's definitely in a bind. Continental growth continues to lag the US so there's a desire for the ECB to cut faster. But that has all sorts of implications on currency and a greater chance of importing inflation. Meanwhile, the Ukrainian War is likely to continue to fuel expansionary fiscal policies beyond Maastricht levels. This could further push Germany, Europe's largest economy, to increasingly embrace debt.

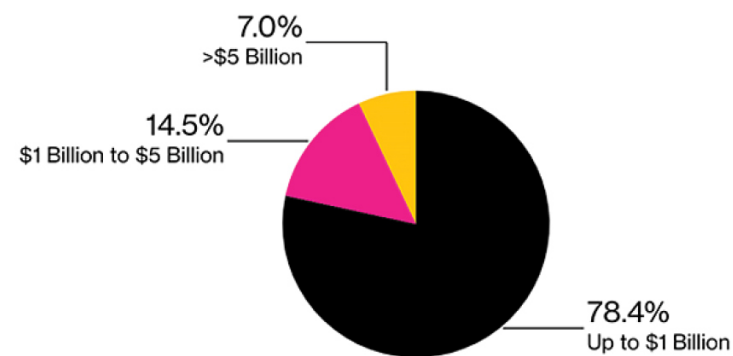
### Are you concerned about expansive US debt negatively impacting the global economy?

Yes. But the risk is hard to handicap. Even if protectionist trade policies are adopted, slowing growth while tax cuts are extended, we're not sure that gets us closer to a tipping point. Where else are you going to park your money?

Maziar Minovi is the CEO of Eurasia Group, the world's leading geopolitical risk advisory firm. He oversees all areas of the global business including the firm's vision, strategy, finances, and day-to-day operations. Maziar has 25 years of experience investing in international and emerging markets. He was a senior member of the Investment Strategy Group at Goldman Sachs responsible for emerging markets and macro investments. Maziar was also head of the Emerging Markets Group at MassMutual/Babson Capital Management and has worked at the IMF, LTCM, Putnam Investment Management, and the World Bank.

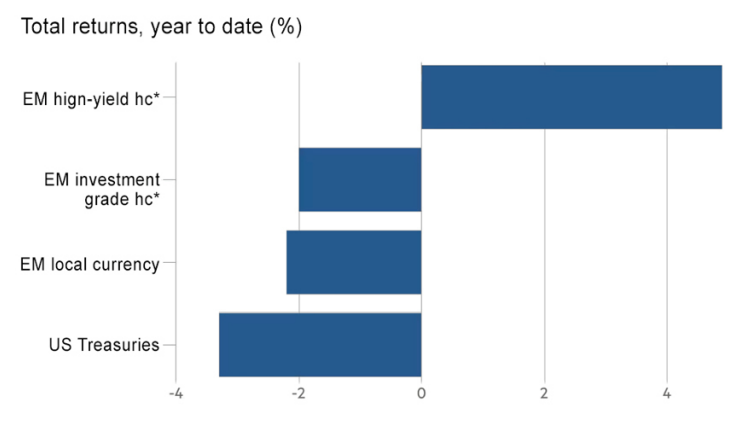


**DISTRIBUTION OF HEDGE FUND ASSETS BY FUND SIZE**



Source: Hedge Fund Research Inc  
Note: Data as of Q1 2024

**SNAPSHOT: EM HIGH-YIELD HARD CURRENCY BONDS OUTPERFORMED SO FAR IN 2024 THRU APRIL**



\*Hard currency  
Sources: JPMorgan, ICE Bank of America, Abrdn, Bloomberg ©FT

performance over the past five years — which was arguably among the most volatile 5-year stretch since the dot-com crash — is that each generated on average twice their historical rate of return.

Peconic Grenadier (No. 1), managing \$1.1 billion, was the best of the lot, not just within

the equity space but across the entire Top 50, having returned more than 27.6% annually over the past 5 five years. And it's the oldest fund in the survey, having launched in 1986.

The second strongest equity performer was activist manager Engine Capital (No.

2). Launched more than a decade ago, it was managing \$901 million as of the end of 2023. It generated annualized gains of more than 25.5% with a wicked high Sharpe ratio of 1.53.

The \$715 million Cooper Creek Partners (No. 4), which has been around since November 2008, has returned an annualized rate of more than 24% over the trailing five years. Its worst drawdown over the trailing five years was -9%. Volatility of 12.5% generated an astonishing risk-adjusted return of 1.83.

**Global Macro**

Global Macro funds had come off a strong 2022, profiting from rising interest rates, falling equity and bond markets, and dynamic foreign exchange rates, helping funds to rally 6.5%.

But 2023 proved more challenging for the space, with average gains of 4.9%. That ranked macro funds in the bottom third of all strategies.

Two funds that had high perennial rankings in the survey failed to make this year's list. Haidar-Jupiter, which had claimed the top spot in last year's survey with an insane 5-year annualized rate of return of 55%, lost nearly half its value in 2023. John Street Capital, which last year had been 12th-ranked, lost nearly -12% in 2023.

Cliff Asness' AQR Helix (No. 9), a quant trend fund, generated 5-year annualized returns of more than 20%. The fund had an extraordinary

2022 when it rallied nearly 50%. Unlike many macro funds that didn't rotate well into the 2023 rally, AQR added another 14% that year.

AQR Helix has effectively controlled downside, having lost no more than -11% over the trailing five years, which helped it to realize a Sharpe ratio of 1.4. But perhaps its most impressive statistic is that it delivered this performance while being negatively correlated to the market over the last 5 years (-0.28). This made Helix the least market-correlated fund in the Top 50.

DE Shaw Oculus (No. 15) and Citadel Global Fixed Income (No. 16) were the two next top-performing macro funds, both generating annualized gains well above 15%. Like AQR, both had solid 2022 returns, rising 20% and 33%, respectively. Then they were solidly in the black in 2023, with DE Shaw up 7.8% and Citadel adding nearly 11%.

**Multistrategies**

Because of rising fees, competition to keep and attract talent, and perhaps also due to an expanding misalignment of interests, the growing consensus seems to be that multistrategy has lost its sheen.

Still, ten funds (20% of the survey) made the cut, the same number as years past. There was a small rotation in the group. Schonfeld Strategic Partners and Segantii Asia-Pacific Equity Multistrategy were out, replaced

**RIVERNORTH CAPITAL**  
**Finding Value in an Unexpected Asset**

In managing one of the most unusual and liquid strategies I've come across in more than two decades of surveying hedge funds, PMs Patrick Galley and Stephen O'Neill have suffered just one down year since the strategy's inception in mid-2007. And that loss was a mere -1.2% when the market had tanked by more than -18% in 2022.

RiverNorth has racked up lifetime net annualized gains of 11.73%. Yearly volatility averaged just 7.6%, which helped the strategy generate a historical Sharpe ratio of 1.4.

In addition to solid risk and return numbers, what makes RiverNorth (No. 50) a compelling story is that it's not directly trading equities or distressed credit, currencies, or an obscure asset class.

The strategy pursues a relative value approach focused on the well-regulated market of closed-end funds, a market that's been around for many decades. RiverNorth is one of the oldest institutional traders in the space.

There are currently more than 423 exchange-traded closed-end funds (CEFs), focused on a variety of asset classes. They represent 20% of all listed securities trading on the NY Stock Exchange.

Unlike open-end mutual funds whose values are reconciled daily with the worth of their underlying investments, CEFs trade on a secondary market. This creates a disconnect between what investors will pay for a portfolio of securities and what their underlying securities are actually worth.

There is often a sizable gap between these two values, and therein lies the opportunity Patrick Galley recognized many years ago when he was an analyst and vice president at Bank of America. "Because of several unique characteristics," Galley explains, "closed-end funds can be a very inefficient market which can make them ideal for trading."

Galley left BoA in 2004 to become the CIO of RiverNorth and manage a hedge fund strategy that would exploit such inefficiencies.

The disconnect between closed-end funds' NAVs and market values is created in part by an investor base dominated by retail investors primarily focused on yield. This happens because CEFs must distribute all interest, dividends, and realized capital gains. Further, CEF managers can leverage exposure and payouts by between 33% and 50%, which can effectively boost annual distributions, in some cases over 10%.



Co-PM Patrick Galley

While exaggerating performance, leverage also enhances volatility when interest rates are rising and falling. Volatility in turn can get further intensified by retail investors, explains Galley, who tend to sell when prices are falling and buy when prices are rising. This creates a sweet spot for the PMs.

This was made plain in 2022, explains Stephen O'Neill, when the underlying value of these funds had declined by -13.6%, but their market value slid by more than -18%. The industry's average discount at the end of 2021 was -2.3%. By the end of the following year, it had declined to -8%.

But RiverNorth's performance held steady in 2022, reflecting the edge that active management can bring to the space.

First, the strategy entered 2022 with reduced leverage and contained downside exposure by having roughly 55% of its book in CEFs and only 5% in the largest and most interest-rate-sensitive segment in the industry — municipal bond funds. The balance of the portfolio was invested in cash like securities (pre-IPO SPACs) and short-term investment-grade bonds.

The managers were then able to trade around the volatility when excessive retail selling created short-term value opportunities. Throughout the year, RiverNorth hedged its book by selling 10-30-year US Treasury futures, buying put options on 20-year Treasury ETFs, and shorting specific sector ETFs that were interest-rate sensitive, including those focused on preferred and income securities.

As fears of aggressive rate increases eased in 2023, RiverNorth started



Co-PM Stephen O'Neill

boosting its positions in tax-exempt municipal funds, whose exposure now stands at 45% with average yields of more than 5.4%. It also now has around 10% in taxable bond CEFs, mostly investment grade.

To better trade the gap between NAV and market value, RiverNorth has developed its own pricing program that provides intraday net asset values of CEF portfolios. (These portfolios are only formally priced at the end of each trading day.)

Beyond trading mean reversion and volatility, RiverNorth also profits from short-term CEF price movement caused by corporate actions, including rights offerings, tender offers, distribution changes, mergers, and liquidations.

While Galley and O'Neill feel there's still plenty of opportunity to profit from closed-end fund inefficiency, they note the increasing participation of institutional investors in the space.

Industry mergers and consolidation have partially consolidated the CEFs into fewer and larger entities, enticing more sophisticated institutional investors into the space. But Galley notes, "still less than 10% of institutional investors actively trade the space, which should leave plenty of inefficiency from which we can profit."



# Ambassador Michael McFaul Explains the Link Between Middle East and Ukraine Wars

Last November, as the House of Representatives was fumbling aid to Ukraine and Israel, Ambassador McFaul shared his thoughts about an illiberal axis of autocrats pursuing a sophisticated and coordinated attack against the West.



Professor Michael McFaul  
Source: michaelmcfaul.com

## Are there ideological links between the two wars?

At the core of this axis of autocracy are Russia and Iran. Putin in Moscow and

the mullahs in Tehran have long sought to weaken the United States and our allies. Their ideological projects are different but related. Both regimes seek to defend their own dictatorships, other autocrats, as well as those sympathetic to autocratic ideas. Both categorically reject liberal ideas as a threatening assault on their alleged traditional cultures and values, berating Western culture as decadent and evil.

Not only does this rogue alliance embrace an illiberal, antidemocratic ideology, they also act in unison to advance their shared ideological agendas. Russia and Iran have joined forces with militant groups like Hezbollah, Hamas, and others to deploy terrorism as a method to advance their interests.

Like Iran, Russia long ago should have been designated a state sponsor of terrorism. I witnessed this first-hand when I served in the U.S. government at the

outbreak of the tragic Syrian civil war.

Hezbollah and Iran provided the ground forces to prop up Assad's brutal autocratic regime; in 2015, Putin sent in his air force to help them. The slaughter of innocent civilians in that war, including the use of weapons of mass destruction, was on an industrial scale. These actors are all still there today.

After Putin launched Russia's full-scale invasion of Ukraine in 2022, Russia and Iran's military cooperation deepened substantially. Amazingly, it is Iran that is providing military assistance – especially drones – to Russia, not the other way around. Autocratic Iran is Russia's most important military ally against democratic Ukraine.

## So you're seeing the Middle East and Ukraine wars as part of a much broader fight?

This illiberal International has come together again to attack democratic Israel.

While Iran directly supports Hamas and Hezbollah, Russia's support of these groups is more veiled but still striking. For instance, an [article in \*The Wall Street Journal\*](#) suggested that Russia's Wagner Group has plans to send air defense systems to Hezbollah (though these rumors, originating from the U.S. intelligence community, remain unconfirmed).

But even if this is untrue, Hamas leaders have traveled to Moscow for years and have always been embraced by the Kremlin as a legitimate national liberation movement, not as the terrorists that they are.

## Do you think Israeli leadership was blindsided not just by Hamas but by Moscow?

Since Hamas launched their barbaric terrorist attack against Israel on October 7, Putin's condemnation has been tepid.

Honestly, I was surprised. For years, Putin has been courting Prime Minister Netanyahu, even winning the Israeli leader's neutrality regarding Russia's invasion of Ukraine. But after Hamas's terrorist attack, Putin pivoted back to supporting his old friends quickly. His autocratic, ideological allies proved to be more important to him than rapprochement with Israel. Netanyahu's embrace of Putin was a mistake. I hope Israeli citizens will

take notice.

There is also good reason to believe that Putin would benefit from a larger, prolonged war in the Middle East, as it would divert the United States' attention from Ukraine. Not without reason, Putin might think that less attention to Ukraine from the United States could open an opportunity for his army to make advances on the battlefield.

## Former House Speaker Kevin McCarthy seemed to have fully supported aid to Ukraine, but his replacement Speaker Mike Johnson, was wavering. Your thoughts?

The House's decision to delay a vote on a new aid package to Ukraine and vote on aid to Israel first was the first win for Putin from the war in the Middle East. Further delays on a vote on aid to Ukraine, especially if complicated by rider amendments about the IRS or immigration reform, would benefit Putin. And time is of the essence.

We cannot allow Putin to terrorize Ukrainian citizens again this winter (2023/2024) because we failed to provide Ukraine with air defenses.

Instead, the U.S. Congress should vote for assistance to Israel and Ukraine in one package to demonstrate that we understand how these wars are inter-

twined.

The axis of autocrats has a sophisticated, coordinated grand strategy to defeat us. We need to develop our own sophisticated, coordinated grand strategy to defeat them. A single vote on aid to our friends and allies in their fight against autocratic allies would be an excellent first step towards that end.

## Thank you Mr. Ambassador.

*This past April, President Biden signed a \$95 billion foreign aid package for Ukraine, Israel, and Taiwan that Congress had finally passed after a six-month delay. Maziar Minovi, CEO of Eurasia Group, fears this might be the last significant aid Ukraine may see from the US. See featured interview on pp. 17-18.*

Michael McFaul, a former U.S. ambassador to Russia, also served for five years in the Obama administration as Special Assistant to the President and Senior Director for Russian and Eurasian Affairs on the National Security Council. He is director of the Freeman Spogli Institute for International Studies and a Hoover fellow at Stanford University and author of "From Cold War to Hot Peace: An American Ambassador in Putin's Russia."

by Verition Multistrategy (No. 23) and Steve Cohen's Point 72 (No. 25).

But the group's 5-year returns remained solid at 12.7%, which is nearly a full percentage point higher than last year's class of mult-

istrats.

Little surprise that Citadel Wellington again led the pack by a wide margin with a rate of return of 24.6%. DE Shaw Composite (No. 13) came in second with annualized gains above 16%, while

Millennium (No. 19) was third with returns of more than 14% a year.

Also of little surprise: the average AUM of these funds exceeded \$12 billion as of the end of 2023, which towered well above the assets of oth-

er strategies.

## Emerging Markets

The largest surprise in this year's survey was that six emerging market managers made the Top 50 — the highest number ever. They collectively delivered annu-

alized returns of 12.5% over the past 5 years. Their volatility averaged under 10 which helped generate a 5-year Sharpe ratio of 1.2.

Mohamed El Jamal's Waha MENA Equity (No. 6) has been making the survey

since the current methodology was adopted in 2019. Having set up shop more than a decade ago, the Abu Dhabi-based asset management firm was an early starter in the region, well before it became a fashion-

able address.

Matt Hu's FengHe Asia (No. 31) has also made the cut for the last four years. The fund's trailing 5-year annualized return was nearly 11%. After being featured in the 2022 survey, Enko Africa

Debt (No. 18), cofounded by CIO Alain Nkontchou, continues to thrive as among the least likely source of consistent returns and alpha.

This year's new additions included three EM credit funds. Sandglass Opportu-



nity (No. 33) and ProMeritum (No. 44) have fund assets around \$350 million. Waha Credit (No. 37) joined the list, also managed by El Jamal with about \$670 million. (Waha Credit and ProMeritum are profiled on pp. 27-30.)

What stood out, especially with the five EM credit funds in the survey, was their collective ability to de-risk their

portfolios despite the high risks associated not only with emerging markets but with portfolios linked to credit during a time of sharply rising interest rates.

When the US sent interest rates soaring in 2022 and into 2023, it was going to cause a lot of dislocation and pain across emerging markets. That was especially evident in Africa where so many

currencies subsequently collapsed, which challenged debt service capacity and fueled the likelihood of debt restructuring.

But several factors helped offset this shock. As Waha's El Jamal explains, many EM economies are based on exporting commodities whose dollar-based prices have rallied helping to support hard currency debt and control

risk in his relative value trading strategy. Waha Credit has had only one slightly down year since the fund launched a dozen years ago.

Pavel Mamai, comanager of ProMeritum, who has never had a down year since starting the fund in January 2015, relies on active directional investing and constantly shifting net exposure to enable the fund to respond

to changing risks and opportunities.

Another factor EM credit managers all noted: explosive growth in EM credit markets, especially hard-currency debt, since interest rates drastically fell following the Great Recession. El Jamal estimates EM debt at \$3 trillion. But he says there's only about \$10 billion in dedicated hedge fund funds focused

on the space, which leaves plenty of room for pricing inefficiency and opportunity.

That fact might explain a recent Reuters' headline in late May that announced: "Bigger Investors Pouring Money into Emerging Markets." Citing David Hauner, head of global emerging markets fixed income strategy at Bank of America, the news service reported "big-money inves-

**“The current pace of strong post-Covid consumer spending feels unsustainable, especially as prices continue to rise fueled not by higher costs but by greedflation.”**

**- Patrick Ghali, Sussex Partners**

While this is the first year that Waha's EM Credit Fund (No. 37) has made the Top 50, PM Mohamed El Jamal is no stranger to this survey.

His MENA Equity Fund (No. 6) has been on the list since the current methodology was established for the survey published in *The Wall Street Journal* in May 2019.

But his dollar-based credit fund was launched two years before MENA in 2012. And El Jamal credits his focus on debt as one key reason why his equity portfolio has thrived across various market conditions.

He explains effective credit investing involves an even more refined understanding of risk than buying stocks. According to the PM, "credit analysts drill down on balance sheets and scrutinize cash flows whereas equity investors gravitate to profit-and-loss statements, which can sometimes mask systemic problems."

This distinction is maintained by El Jamal overseeing two dedicated credit and equity teams. They share their research (when appropriate), helping to build a more comprehensive understanding of risks and opportunities across the capital structure in both spaces.

But where the manager makes a directional bet on specific equities, he runs a market

neutral credit book, relying on relative value and arbitrage strategies to profit from temporary mispricing of credit securities. He also places long and short directional trades on specific sovereign and corporate credit.

El Jamal manages his credit book by being mostly agnostic about interest rates and credit market movements.

MENA Equity generated 20.6% annualized returns over the trailing 5 years through 2023. Credit has produced about half that rate of return, however, with just about half the volatility of the equity fund.

The appeal of EM credit markets, explains El Jamal, is their inefficiencies, which persist because while assets in this space are growing larger, involvement of intermediaries and liquidity providers is shrinking.

He says pure actively managed EM credit hedge funds control just about \$10 billion in the \$3 trillion space. Multistrategy funds may trade another \$10 billion. Accordingly, he sees "more alpha potential in EM credit than in developed markets, which enjoy far more liquidity, less dislocation, and lower volatility."

Effective risk control, including position and industry exposure limits and significant diversification, has kept consecutive monthly drawdowns to just two months. The fund

## WAHA EMERGING MARKET CREDIT Derisking Emerging Markets

has had only one down calendar year in 2014 when it lost -40 bps.

Such downside protection coupled with steady profitability has helped Waha establish a sticky institutional investor base. Two-thirds of the fund's assets belong to pension and sovereign wealth funds along with insurance companies.

The manager is the first to admit that consistently finding sound emerging market opportunities is anything but easy or formulaic. It requires a seasoned, shrewd team with a nuanced understanding of local markets and asset-class cycles along with disciplined portfolio management.

"Our diversified portfolio involves around 100 positions," explains El Jamal. His core



PM Mohamed El Jamal

geographic exposure: one-third Middle East/North Africa, one quarter Latin America, and 17% Central and Eastern Europe.

Trade sizing matches projected risk and return, and hedging is a must, even with his highest conviction trades.

A recent example was an investment in 30-year dollar-based Egyptian sovereign debt, which was trading around 48 (\$0.48) in October 2023. The credit team felt the market was pricing in another round of debt restructuring. Waha, however, was convinced the central bank and government policies were committed to avoiding default. The fund hedged this bet by purchasing a 2-year CDS at 75.

By February 2024, the bonds had rallied to

80, which produced one of the firm's most profitable bets so far this year.

The fund's worst drawdown occurred at the start of the pandemic when there was a widespread selloff of securities. Credit lost -16% in just two months, but ended 2020 up nearly 15% as the fund allocated capital into "some of the best EM dislocations I've seen in the last twenty years ex-GFC," recalls El Jamal.

The second worst selloff was just -7%, again lasting just two months at the end of 2014 when emerging markets started to tank. Liquidity dried up, local currencies fell with crude oil prices, and emerging market growth slowed considerably, led by China. Waha Credit ended 2014 flat. It gained 7% in 2015 when the MSCI Emerging Market dollar index fell by -14.6%.

The fund also sidestepped the complete write-off of Russian debt by having pared down a small net exposure of 2% in half by the time the war started in February 2022. It had only a 30bps long exposure to Ukraine at the time.

Locally, the Israeli-Hamas war hasn't affected Waha because, as El Jamal explains, the market never sold off to compelling levels and the manager has remained neutral in the region. But over the near term, he admits a sudden escalation of the fighting could

change this outlook.

Longer term, the manager is more concerned about evolving US risks. "The country is still the world's growth engine and it has been performing very well during the rapid rise in interest rates," observes El Jamal. He credits this accomplishment to a robust economy, a dynamic market place, and a huge infusion of liquidity into the market due to aggressive fiscal and monetary policy.

But he sees US policies and politics recasting the country increasingly as an emerging market. "It's running unsustainable debt and current account deficits, excessively reliant on printing money which it can do for now because the dollar remains the world's reserve currency, and suffers from a strong dose of dysfunctional political polarization," observes El Jamal.

This suggests the risk differential between the US and emerging markets may be narrowing, and he fears for the future of the dollar and how any material change in its status may affect other asset classes, especially across emerging markets.

El Jamal is also concerned about the risks associated with a shift from a US-led world order to one that's becoming multi-polar as the US is defaulting from its global leadership position.



“Governments are increasingly distorting markets with industrial policy. State spending is growing as a share of the economy as populations age, and conflicts around the world require more spending on defense. In the face of all this, anyone betting that the world economy can just keep carrying on is taking a huge gamble.”

- The Economist

tors are beginning to place more cash in emerging markets as they chase returns in what could be a structural

shift in the way they allocate their money.”

**RISKS AND**

**OPPORTUNITIES**

A recent news item triggered a memory from the global financial crisis.

It was only when the staunchest bulls started selling that marked a final capitulation in the selloff. Soon afterwards the market began to reflate.

A May 2024 news item in Bloomberg noted that Mike Wilson, Morgan Stanley’s always cautious chief equity strategist, conceded the market rally was on. He was substantially upping his year-end target for the S&P 500 by 17%, from 4,600 to 5,400 (where the market stood in mid-June).

It wasn’t the first time Wilson reconsidered his bearishness. But his recent conversion to believing US stocks are heading higher is note-

worthy.

That can be worrisome because when there’s broad consensus, it can suggest an approaching inflection point.

Wilson does warn that, “the rally since last October is due largely to multiple expansion and investors should be asking themselves if this rise in valuations is justified.”

Wilson doesn’t think so. But with fiscal spending continuing to fuel growth, he admits, “we have little confidence in our ability to predict the exact timing or magnitude of this normalization,” thus justifying his marked up year-end outlook.

Goldman Sachs’ CEO David Solomon agrees, saying that government spending is making the economy more resilient, leading him to think the Fed might well keep rates

where they are for the rest of the year.

An alternative take: The economy may have more upside, according to economist Ed Yardeni, because it has shifted from “a goods-producing one to a more high-tech and services-providing one that’s less interest-rate sensitive.”

All this seems to suggest that the rest of 2024 should be safe for risk.

“However, there is some evidence of a disconnect between fundamentals (profits) and market performance,” says Anthony Novara, partner and research director head at the \$309 billion Chicago-based Fiducient Advisers. “We don’t see the current equity risk premium as particularly attractive at current valuations, especially when coupled with geopolitical uncertainty.”

That said, he sees upside with hedged equity and credit strategies, as well as certain relative value strategies that focus on leverage and liquidity. “There are opportunities in convertible arbitrage as we head into a large corporate refinancing cycle,” observes Novara, “as well as in global macro strategies that trade global rates, especially given elevated levels of interest rate volatility.”

He’s also constructive on first-tier multistrategy shops (notably those that are Asian focused) whose short-term trading helps contain risks from concentrated and over-

**Why Good Funds Didn’t Make the List**

The main reason most hedge funds -- with at least five years of returns -- don’t qualify for this survey is because they are inconsistent performers.

But there are a number of fine managers that didn’t make the list because of failure to meet all the thresholds for inclusion.

Ten funds, which regularly made my list, didn’t this time because they had underperformed in 2023, such as MAK Capital and John Street Capital. That doesn’t mean they’ve lost their edge or are not worthy of consideration.

But for this survey, I avoid subjectivity and apply strict objective parameters from which I won’t deviate to objectively provide readers with the most consistent performers.

For instance, Paris-based Capital Fund Management is a solid quant shop that was started in 1991. Its flagship systematic alpha fund is **CFM Stratus**. It was launched in 2003 and currently manages \$7 billion. Its worst drawdown was less than -12% and annualized volatility is less than 6%.

Its 5-year annualized returns of 9.3% certainly would’ve ranked the fund within the top 40 this year. But in 2019, its 4% return was under that year’s hurdle rate of 5%.

Or consider Aaron Weitman, who spent 15 years with David Tepper at Appaloosa honing his skills. He rose to senior partner before setting up **CastleKnight**.

His \$1 billion NY-based event driven fund has delivered consistently compelling gains every year with annualized returns averaging more than 30%. Its aggressively strong performance has fueled volatility of 22%, while its worst drawdown was less than -15%.

But his fund has been around for less than four years, failing to meet the 5-year minimum.

Carl Tohme is a proven well-established emerging market manager. I first reported on his performance in the *Financial Times* several years after he established his semi-autonomous EM fund in 2008 under the Jabre Capital umbrella. But when Philippe Jabre shut down operations in 2018, Carl relocated his fund to Cheyne Capital.

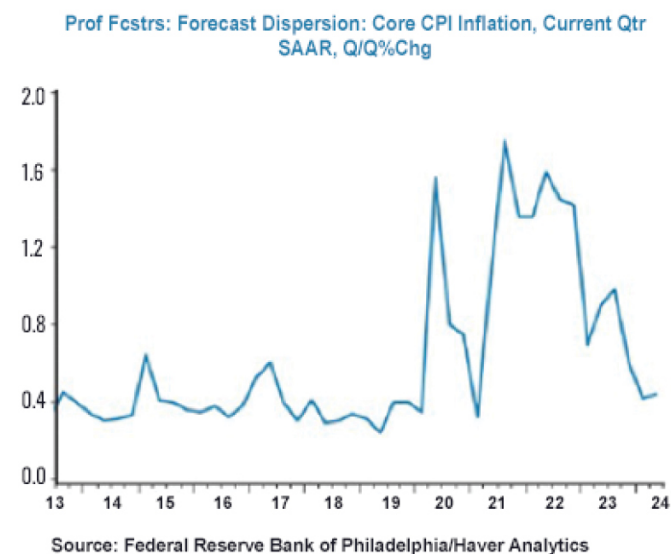
Including performance since the fund’s inception, **Cheyne EMEA** has been generating annualized returns of more than 9% with volatility below 9%. His worst drawdown over that time was -12.3%, which was fairly remarkable considering it includes the financial crisis.

His trailing 5-year annualized returns of nearly 8% would’ve secured a spot in this year’s survey. But there were two hitches. Though the survey’s 2022 hurdle was a low -5%, Cheyne EMEA lost several points more than that due to its exposure to Russia, which Tohme had significantly pared back before the war started.

More surprising was that despite his long established track record, the fund is running only \$233 million. That’s less than the survey’s \$300 million minimum, established to ensure a fund could afford first-tier service providers, which Cheyne no doubt has in place.

**TWO POSSIBLE SIGNS OF GOOD NEWS OR ANALYST CAPITULATION**

CPI Forecast Dispersion Has Declined...



...and Earnings Estimate Dispersion Is Falling





crowded trades.

Patrick Ghali, the managing partner at the London-based investment advisory Sussex Partners, sees a number of countervailing forces at play that makes it hard to read where the market may be heading. A big picture concern: the strong post-Covid pace of consumer spending. He believes, “it feels unsustainable, especially as prices continue to rise fueled not by higher costs but by greedflation.”

Accordingly, Sussex remains cautious, avoiding directional risks, investing across vari-

ous strategies.

It continues to focus on global macro and relative value rates trading due to the increase in rates volatility and central bank policy divergence, and the response by market liquidity providers. He also likes equity long-short managers that trade specific niches such as US small- and mid-cap shares.

Ghali is favorably disposed to Asia, especially Japan due to structural inefficiencies, lack of analyst coverage, and a credible push for reform by both the government and the Tokyo Stock Exchange that

still limits hedge fund investments.

He’s wary about Chinese exposure because of a growing trade war and potential for sanctions. And despite the start of ECB rate cutting, Ghali doesn’t see significant revaluation of eurozone equities for the rest of the year.

Another issue that worries Ghali is the market’s “over-emphasis on interest rate expectations that’s fueling greater volatility than what current fundamentals would suggest is appropriate.”

Cedric Dingens, who’s head of investment solutions at

Swiss-based NS Partners with \$12 billion under management, is more sanguine about European prospects.

Having started 2024 with 80% of equity managers focused on the US, he projects that exposure will drop to 65% this year. He doesn’t fear a slowing American economy and expects US markets may likely surprise on the upside. But Dingens sees more attractive valuations in Europe, and expects the firm’s continental exposure will rise from 15% to 25%.

Feeling more bullish with the

risk of recession lessening and the prospect of lower rates, the firm is maintaining its 65% hedged equity weighting.

While NS Partners keeps an eye on the Ukrainian and Middle East wars, neither seem likely to materially alter the investment risk environment in 2024.

The one uncertainty that Dingens is most concerned about: a second Trump administration.

“There is a risk that Trump would not really support NATO in the Ukraine/Russia war,” says Dingens, “which

could put real pressure on Europe. And there are a lot of questions about tariffs as well.”

But the biggest risks associated with his re-election are the unknowns. “I feel that we should live in an even more unpredictable world with a Trump administration,” Dingens fears.

With US support of NATO being more suspect under Trump, Dingens says that would fuel greater defense spending and increase trade risks, which would weigh on European growth.

A broad bullish consensus is

echoed by J.P. Morgan Asset Management’s chief global strategist, David Kelly. He thinks the current stable environment could encourage further flows into the hot expensive US mega-caps while ignoring foreign equities.

“Who needs bonds or alternatives in an economy that always works for equity markets?” quips Kelly. For the rest of 2024, he may be right.

While acknowledging American exceptionalism that continues to reward those that are long the US, *The Economist* reminds that there are

troublesome imbalances and serious sources of instability.

In a recent cover story entitled “Too Good to be True,” the newspaper concluded, “Governments are increasingly distorting markets with industrial policy. State spending is growing as a share of the economy as populations age, the green-energy transition beckons, and conflicts around the world require more spending on defense. In the face of all this, anyone betting that the world economy can just keep carrying on is taking a huge gamble.” ■

## Can Past Performance Suggest What Is To Come? New Research Says: Could Be

I used to discuss the merits of hedge fund performance as a forward indicator of future returns with Goldman Sachs’ Kent Clark. He led the firm’s Alternative Investments & Manager Selection Group and was head of Hedge Fund Strategies, before he passed away recently at far too young of age.

He argued that rather than seeing them as long-term investments, hedge funds should be rented because over the medium- and long-term performance can be mercurial.

In stripping away the industry’s mysterious aura, I’ve come to think of hedge funds as simply asset managers with more tools in their belts than ordinary ‘40 Act funds. And if they were able to develop a disciplined and transparent

investment process that could navigate various markets, maybe that could make them more adept over the long run.

But I’ve come around to embrace a part of Kent’s thinking. With rare exception, the very best of managers will stumble.

That said, I believe that when a fund is transparently run with clear reasonable goals, meaningful risk parameters, and a solid team in place, consistency can beget consistency. That belief is at the core of my annual survey.

My colleague at *Institutional Investor*, editor Julie Segel, recently cited new research that found past decision-making could indeed be an indicator of future returns. It examined the impact and value of individual investment decisions made

by portfolio managers.

That research came from New York-based Essentia Analytics (EA), a leading provider of behavioral data analytics to professional investors and capital allocators that collectively manage more than \$250 billion.

EA’s CEO and founder, Clare Flynn Levy, previously actively managed over \$1 billion in pension funds at Deutsche Asset Management.

Her team’s most recent findings that seek to distinguish between luck and skill are summarized in [The Link Between Decision-Making and Investment Returns](#).

Its takeaway: “An active equity fund manager who has made skilled decisions over the last year is 1.5-times more likely

to outperform their benchmark over the next 12 months than a manager who hasn’t.”

That suggests if one is allocating to managers based on this principle, there’s a need to regularly update the underlying research to sustain such allocations. And that’s where Essentia Analytics’ services come in.

The firm’s research was based on 123 long-only liquid equity funds’ performance over the past decade through 2023. It considered past decision-making in its assessment, not traditional return metrics.

EA investigated seven different factors: stock picking, sizing, entry timing, scaling in, size adjusting, scaling out and exit timing — and the value added or

destroyed (as measured by the impact on returns relative to the portfolio’s benchmark) by each of these decisions.

But its findings may apply to anyone managing a stock portfolio and by extension possibly to different asset classes.

EA contends its findings support the belief that, “there is a way to tell whether a manager is more or less likely than other managers to deliver outperformance.”

Global Investment Report’s survey takes a slightly different approach. It presupposes long-term consistent performance is based on skill and that by annually looking back at trailing five-year periods, it suggests such consistency may be a potential indicator of forward returns.

The survey also contends that luck gets

netted out over this length of time. And it acknowledges the need to maintain constant due diligence to ensure management, investment processes, and strategy remain in place. If they do, then that may enhance the chances that past performance may indeed portend returns that are to come.



CEO Clare Flynn Levy, Essentia Analytics



## PROMERITUM EM SEGREGATED PORTFOLIO

## Finding Value in Emerging Markets



Co-PM Pavel Mamai

After initially reviewing ProMeritum (No. 44), the first thought I had was of a manager that delivered moderate returns in a high-risk space. That seemed out of whack. Returns should match risk taken, right?

Then I realized that PMs Pavel Mamai and Anton Zavyalov are taking much of the risk out of emerging and frontier market credit in delivering among the most consistent returns across the hedge fund industry.

Since its inception in January 2015, the \$377 million fund has generated annualized returns of more than 8% a year with an annual standard deviation of just 4.1 and a worst drawdown of under -9%. And the managers have never suffered a down year. That was essential for the fund to have earned a place in the Top 50.

Drilling into recent performance reveals how

the PMs have managed risk and kept from losing money especially as the market was shocked by systemic events.

In anticipation of rising financing costs, EM markets started falling six months before the Fed started pushing up interest rates in March 2022.

ProMeritum experienced its longest drawdown during the last four months of 2021 and

then into January 2022. The fund still managed to gain more than 4.5% in 2021 while JPM Emerging Market Global Bond Index (USD) lost several percentage points.

During this sell off, the PMs were realizing their established response of countering losses by buying on dips was not working as both currencies and asset prices were in a sustained decline.

So they decided to more aggressively hedge external risks by shorting US Treasuries and credit spreads between EM sovereigns and US Treasuries. “We found that effectively applying such hedges was as much a matter of discretion as it was responding to a distinct shift in markets,” explains Mamai.

Between the fear of rising rates, the Russian invasion of Ukraine, and soaring fuel and commodity prices, EM credit markets then

went into free fall in 2022, ending the year down more than -18%. ProMeritum, conversely, gained 4.5%.

The managers admit they probably could’ve done better.

Mamai and Zavyalov are British citizens, though Russian by birth, and had worked in Moscow. “Our knowledge of the country simply didn’t allow us to believe Putin would invade Ukraine,” recalls Zavyalov. “It made no sense and state TV was not beating the war drums.”

But three days before the invasion, the managers realized their misplaced hope as Russian propaganda turned more belligerent. The managers immediately responded by de-risking their regional exposure.

They cut their long Ukrainian exposure by two-thirds to 4% and ratcheted up the existing negative position in Russia from net -4% to -16%. They shorted two Russian banks that would likely be sanctioned, shorted the ruble, and bought 5-year Russia sovereign CDS. Several days after the war began, they closed these positions, anticipating that foreign trading would be halted.

Also, they sold their positions in Egyptian credit and shorted Romanian and Baltic credits along with the Polish zloty.

In search of broader protection, the managers then bought call options on US Treasuries, anticipating a short-term bounce in

safe-haven debt. They also bought two-week call options on Brent Oil, believing the West would embargo Russian energy.

In having effectively managed a myriad of risks, the PMs then saw increasing long opportunities heading into the fourth quarter of 2022 and into 2023. The fund’s average net long exposure in 2022 (40% and 50%) shifted to 70% and 80% in 2023. ProMeritum subsequently enjoyed its best year yet, up more than 15.7%.

ProMeritum targets investments within the EMEA (Europe, Middle East, and Africa). In addition to technical and industry analysis, the fund heavily relies on in-depth on-the-ground research built on extensive personal relationships.

“The latter is essential,” explains Mamai, “because published data is often of limited value. In emerging and frontier markets, it’s far more important to understand what’s motivating the actions of governments and state-owned companies and then to match that against what they’re actually doing in assessing risks and opportunities.”

That analysis also applies to understanding what’s driving IMF and World Bank decision making, whose statements and actions can directly affect the fund’s positions.

ProMeritum follows a strict set of rules in making primarily directional opportunistic trades both long and short. Only about 10% of its bets are relative value trades. Hedging is limited to macro risks. And it rarely deploys leverage.

Its investments are inspired by various catalyst-driven themes. They range from eco-

nomics reforms and political developments, debt restructuring and compositional changes in credit indices, central bank policy changes and capital controls. Historically, the firm has made money on three-quarters of its themes.

Its portfolio is typically comprised of 50 to 60 positions, grouped around 5 to 10 investment themes with investment horizons lasting from three to nine months. Investment positions turn over around 8 times a year; its hedging positions more frequently.

There’s only about \$10 billion of dedicated EM credit hedge funds. Mamai believes multistrategy funds may double or triple that exposure. He sees them increasing market liquidity in this inefficient market without infringing on ProMeritum’s prospects.

“Multistrats’ strict risk controls tend to limit their trades’ life span,” says Mamai, “where our longer trading horizon of up to nine months enables us to capture more upside of a trade while focusing on different, more evolving opportunities.”

The managers are cautiously positive for the rest of the year, noting strong developed market data and resurging commodity prices that are collectively driving demand for EM credit.

But they’re currently wary of tightening spreads. Zavyalov explains, “we’ve taken some profits, added some macro hedges, and

increased exposure to our most idiosyncratic themes — including the Turkish lira due to rate rises and the government’s commitment to economic orthodoxy.” The managers also see opportunity in an oversold Egyptian pound, especially in light of GCC commitments to the state and the recent conclusion of an IMF deal.

Accordingly, the fund has rotated into local sovereign debt, which should benefit from currency recovery and declining interest rates.

Mamai and Zavyalov believe the main macro risk ahead is uncertainty of what the Fed will do with interest rates. This unknown is increasing volatility.

In business development news, ProMeritum recently launched a 1.5x levered version of



Co-PM Anton Zavyalov

its flagship fund. It’s designed to enhance returns without taking on additional portfolio risk. Even at today’s higher borrowing rates, leverage is projected to nick only about 1% per year of returns.

**This independent study** is not a recommendation to invest in any of the funds profiled, ranked, or mentioned in the survey. Readers that invest in any hedge fund must conduct their own extensive due diligence before allocating. Special thanks to Marina D’Angiolillo, research and professional services manager at Backstop BarclayHedge, for her extraordinary help for initially screening through thousands of funds in the firm’s database and performing specific fund analysis. And many thanks to my designer extraordinaire Coco Sallée.

All rights of this survey belong to Eric Uhlfelder and a licensing agreement must be secured with Mr. Uhlfelder for its commercial use. **Eric Uhlfelder** has covered global capital markets from New York over the past 30 years for various major publications, including for *The Financial Times*, *The Wall Street Journal*, *Institutional Investor*, *Pensions & Investments*, *The New York Times*, *The International Herald Tribune*, and *BusinessWeek*. He wrote the first book on the advent of the euro post currency unification, “Investing in The New Europe,” for Bloomberg Press. And he has earned a National Press Club Award. His website is [www.globalinvestmentreport.net](http://www.globalinvestmentreport.net)